

World Financial Markets

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Table 1

Dollar exchange rates

units per dollar except as noted

	1980	1981	1982	1983	1984	1985
Nominal effective dollar*	113.8	111.1	109.2	107.1	105.1	103.1
Real effective dollar*	111.7	109.1	107.1	105.1	103.1	101.1
Japanese yen	234	234	234	234	234	234
Canadian dollar	1.32	1.32	1.32	1.32	1.32	1.32
German mark	2.84	2.84	2.84	2.84	2.84	2.84
French franc	8.62	8.62	8.62	8.62	8.62	8.62
British pound**	1.41	1.41	1.41	1.41	1.41	1.41
Italian lira	1762	1762	1762	1762	1762	1762

*1980-82: 100

**Dollars per pound

Within days of the September meeting in New York of the Group of Five (G-5) finance ministers with central bank governors the dollar dropped 7% on a 30-day contract basis. By late December it had fallen 9% against the Japanese yen, around 7% against the German mark and other ERM currencies. It slipped slightly in March against the Canadian dollar and in May it declined on the domestic market from 115% to 113% (including the effect of inventory effects for heavy industry). Exports, however, continued to grow at 20% against the yen and 10% against the mark.

Notwithstanding these trends, most eight months ago when concerns about the industrial countries' trade balance began to surface, the dollar was trading at 103.1 (1980-82) and 101.1 (1983-84) against the yen, 103.1 (1980-82) and 101.1 (1983-84) against the mark, and 103.1 (1980-82) and 101.1 (1983-84) against the pound. It should prove a curious relationship if the dollar would average 2% higher this year than in 1984, while its 1986 average would turn out little more than 10% below the 1985 level.

At no point this year has the dollar shown any tendency toward the fall its descent since February has been orderly and well managed; bearish sentiment has not broken

out. During brief episodes of dollar weakness in late October and early November the dollar displayed a renewed tendency to turn counteracted by market intervention. Japan has been the most active intervener, and the Federal Reserve has been far from idle. These, although not explicitly announced, measures or threat of devaluation, have intervened now and then to avert further participation. Others have left their interventionist intentions and tactics deliberately uncertain.

The G-5 announcement stressed the need for "greater shifts in fundamental economic conditions," "negotiated with policy commitments for the future" (high) not been reflected fully in exchange markets.¹ However, the economic fundamentals present a mixed picture at present, helping to explain favorable market movement toward the dollar. The economic strength factor is beginning to look more positive for the dollar, although for a time. True, the disparity in 1983-84 among the United States, Europe and Japan have long since given way to more convergent performance (see Table 2). For the past 15 months U.S. growth may well have fallen below the industrial-country average. However, this year's brisk U.S. monetary expansion

The trade-weighted dollar
 (annual index 1981 = 100)
 quarterly averages



sion and interest rate declines are breeding some pickup in U.S. economic growth—from an annualized 2.2% these past five quarters to almost 3% during 1986—roughly matching growth elsewhere in the OECD economies.

Europe's growth is shaping up to be slightly stronger this year than in 1983-84. For 1986, with the help of scheduled tax cuts, Germany should manage 3% real GNP expansion—perhaps even a little more—versus a disappointing 2.2% this year. German growth is coming to rely more on domestic investment and consumption than on the exports that have driven recovery hitherto. The French economy also should achieve fractionally faster growth in the year ahead. However, Britain and Italy are likely to slow, as will several of the smaller European economies. Japan should be able to grow faster than the United States or Europe. Nonetheless, as discussed in the following article, Japan's growth is faltering and could be noticeably lower in 1986 than in 1985 unless it could be substantially helped (unless the government does more to stimulate domestic demand; its October measures are unlikely to replace much of the past three years' stimulus from exports).

In principle, the U.S. trade deficit is a negative for the dollar. However, the markets have long since discounted it. Besides, the deficit is no longer conspicuously widening. Until midway last decade, when some speculated that the full-year deficit would surpass \$150 billion, instead, it now may come close to \$135 billion. In July and August, the deficit contracted to a monthly rate of around \$10 billion, compared with the June record of \$13.4 billion. The narrowing was nothing to the dollar's decline or better U.S. export performance; instead, it reflected broad-based declines in U.S. imports of both oil and manufactured goods.

As the U.S. economy strengthens, the trade deficit will likely widen once again, at least for a time.

More immediately important for the dollar, between May and late October there was no narrowing of the short-term interest rate differentials buoying the currency (see Table 3). Long-term differentials were even more supportive. While U.S. rates firmed this summer, European interest rates eased considerably. Moreover, at least until Japan's recent interest rate moves, the September G-5 announcement changed the situation little.

Although U.S. interest rates are widely judged high in real terms, the Federal Reserve has been reluctant to push rates lower. Chairman Volcker has repeatedly expressed his concern about above-target expansion of M1 money supply; an already steep yield curve poses another obstacle; and there is the further risk that driving rates down precipitately could choke off the inflows of foreign capital that cover the U.S. domestic savings shortfall. The Open Market Committee's August meeting betrayed concern on this last score, contributing to its decision for marginal tightening of policy. So far, with confidence in the dollar substantially intact, the inflows do not appear in jeopardy. Nonetheless, there is no indication since September of Federal Reserve willingness to ease. Accordingly, differentials can only take the dollar lower if interest rates firm elsewhere. Although German rates have indeed edged marginally higher during the past month, the authorities are not keen to jack up interest rates openly or sizably. Japanese interest rates edged lower for much of October; the yen was supported by intervention. However, this lost effectiveness toward the end of the month, compelling a startling run-up of yen interest rates across the maturity spectrum.

Table 7
Real GNP growth
 (annual)

	1981	1982	1983
All major OECD countries	4.3	2.5	3.0
European Community	3.3	1.3	2.3
World & elsewhere			
Australia	3.8	3.1	3.7
Canada	4.8	3.8	3.1
France	3.3	2.2	2.5
West Germany	3.8	2.5	3.0
Italy	2.3	1.3	2.0
Japan	3.7	3.2	3.3
U.S.	4.0	2.2	2.2

Table 3

**Three-month Eurocurrency
interest rates**
percent per annum

	End Feb. 1985	End May 1985	Apr. 90 1985	Oct. 28 1985
Dollar	9.4	7.8	8.1	8.1
Japanese yen	9.4	7.2	8.2	7.8
Canadian dollar	11.7	9.2	11.5	8.5
German mark	6.1	5.8	4.4	4.9
French franc	11.1	10.2	5.7	9.8
British pound	13.8	12.4	11.2	11.6
Italian lire	14.8	13.0	16.5	13.1

As for policy commitments, the G-5 announcement broke no new ground. It commended existing policies geared to structural adjustment in a noninflationary environment. It also urged resistance to protectionism. However, its prescriptions were quite sparse for substantive policy changes that might fundamentally influence the currency markets. For several months, amid broad-scale national debate, down payments have been made toward reduction of the U.S. federal budget deficit. According to the Congressional Budget Office analysis of this summer's Concurrent Budget Resolution, the deficit will decline by roughly 2.5% of GNP between FY 1985 and FY 1988. The resolution, however, is unlikely to be fully implemented: farm spending, for example, may far exceed the allocated amounts. Thus, the deficit may decline only 1.8% of GNP by FY 1988, or to \$175 billion rather than the projected \$143 billion. Going further, the Senate's amendment to the bill that would extend the debt ceiling seeks elimination of the deficit by 1991, barring war or recession; were the projected deficit in any fiscal year to exceed the path prescribed, the President would be required to cut spending across the board, excepting interest payments, Social Security, and certain precontracted obligations. The Senate amendment poses difficult issues and faces an uncertain fate. Still, deficit cutting has clearly made headway.

With the United States now moving on the budget issue, there is a very

real risk that OECD economic growth will sink decidedly below 3% during this vital, yet necessarily protracted, period of adjustment. Such an outcome would have grievous consequences for both unemployment in the industrial countries and the economic and financial problems facing developing countries. As the U.S. fiscal engine is thrown into reverse, Japan and Germany urgently need to reconsider their existing commitments to fiscal stringency.

Both Japan and Germany should be gearing up now for fiscal expansion to offset U.S. fiscal contraction. Working for such offset is a far more important function for the G-5 than issuing pronouncements that applaud existing national policies and Hector currency markets to conform to official views of economic fundamentals. True, as the September experience demonstrated, announcement effects on the currency markets can be substantial in the short run. Likewise, sterilized intervention — actual or threatened — can be forceful for a time. Neither tactic, however, provides a durable substitute for fundamental policy changes. Thus, the real challenge before the G-5 is to convene more frequently and work purposefully for consistency in the monetary and fiscal policies of its member countries. Such macroeconomic consistency provides the only means to reconcile increasing freedom for international capital flows with the economic imperative for reasonably free trade in goods and services.

Figure 3
Japan: real GNP growth
percent per annum



Figure 4
Sources of Japan's real
GNP growth¹

percent of annual growth

	1960-74	1975-79	1980-84
Exports	1.0	1.0	3.3
Imports	0.5	0.5	0.3
Net exports	0.5	0.5	3.0
Domestic demand	9.5	9.5	1.7
Government	4.6	5.1	1.8
Private	4.9	4.4	0.2

¹ Derived from National Accounts Agency, 1975 prices.

Japan's macroeconomic trends and policies

Japanese action to boost its domestic demand is key to the G-5 strategy for lacking global imbalances in a framework for economic growth rather than retrenchment. Japan's growth has become unduly dependent on the foreign sector, the current account surplus now approaches \$50 billion, or 4% of GNP. Were foreign growth to stumble, or foreign protectionism intensify, Japan's economy could be in trouble.

The government's program announced in mid-October signals Japanese recognition of the political urgency for action. Five measures were announced: increased funding for the Housing Loan Corporation; increases for extra utility spending; expansion of public works and permission for extra local government road issues; increased sales of public goods intended to generate additional private investment; and relaxation of down payment and leasing regulations on consumer goods. Yet, government claims of a direct and indirect impact on the economy of \$10 billion in 1986, or 1.27% of GNP, appear exaggerated. Some of the spending detailed in the program was already in the works; in other cases the measures merely bring spending forward from late 1980 or early 1987 to early 1986, or shift funds from one project to another. Realistically, the program's net impact may be no more than a cumulative 0.5% of GNP spread over two years but concentrated in the first half of 1986. Besides, the stimulus will be blunted by the jump in Japanese interest rates that occurred in late October.

Fundamentally, little has been done to solve the problem of Japan's "excess" savings; the economy still will fail to generate domestic investment opportunities sufficient to absorb private- and public-sector sav-

ings. The excess spills abroad as trade and current account surpluses. Although some of Japan's trade partners may find its surpluses acceptable for a time as a supplement to their own inadequate savings, their exposed domestic industries bear the brunt of Japan's export competitiveness. For their part, many Japanese observers welcome external surpluses, judging them both virtuous and structural, an immutable feature of the economy. Review of Japan's actual experience since 1970, however, demonstrates that there is nothing immutable about the current domestic savings excess. Instead, revamping of fiscal policy would enable Japan's domestic demand to approach the economy's potential more nearly. That would cut Japan's external surplus to manageable levels without recourse to distorting controls.

The emergence of "excess" savings

Among industrial countries Japan has enjoyed by far the fastest economic growth in the postwar period. However, its performance has deteriorated noticeably since the first oil shock (see Chart 2); and in the 1980s the economy has developed an untenable reliance on external demand as the engine of continued economic expansion (see Table 4). Net exports provided about 45% of the increase in Japanese real GNP from 1980 through 1983. In 1984 they still provided about one-third directly, while favorable export prospects motivated a significant part of the domestic investment recovery. This situation has continued into 1985, with net exports again contributing about one-third of overall economic growth.

Japan's heavy dependence on ex-

Table 5

Japan: selected commodity imports

	1984 (% of 1980)	1980 (% of 1980)	1984 (% of 1980)
Petroleum*	84	100	84
Foodstuffs	115	100	115
Iron-ore	14	100	14
Nonferrous metals	11	100	11
Wool	18	100	18
Nonmanufactures	100	100	100
Total	100	100	100
Total imports	100	100	100

*Source: U.S. Department of Commerce.

ternal sources of growth has led to bulging trade and current account surpluses. Large and chronic surpluses are at variance with earlier experience: from 1965 through 1982 Japan's current account twice swung from surplus to deficit and back. Its average surplus was less than 1% of GNP. Since 1982 the surplus has grown rapidly, reaching almost 3% of GNP in 1984 and approaching 4% this year.

Developments abroad have clearly contributed. From 1980 through 1984 U.S. domestic demand outpaced Japan's by 0.3 percentage point annually, whereas the 1970s reflected a 2.3 percentage point differential in favor of Japan. This still coincided with Japan's much more propensity to import and to avoid U.S. demand for Japanese exports but was growth in domestic markets. The difficulty has been aggravated by a strong dollar and weak commodity prices. Less intensive use of imported commodities, too, has been important. For example, the dollar value of oil imports dropped 25% from 1980 to 1984 while volume fell 16% (see Table 6). The value of nonferrous metallic ore and wood imports plunged 46%, half from a decline in volume. In aggregate, falling prices reduced Japan's bill for imports of nonmanufactures in 1984 by \$10 billion, falling demand by around \$12 billion.

It is not correct, however, to blame Japan's surpluses on external factors alone. U.S. domestic demand has actually grown less rapidly on average in the 1980s than in the 1970s. The differential switched because Japanese demand has been unusually weak. Stronger Japanese domestic demand would have boosted imports and reduced Japan's trade and current account surpluses. Japanese observers are prone to argue, nonetheless, that an immutable excess of Japanese savings over domestic investment makes current ac-

count surpluses and increases in net foreign assets inevitable by definition. Such an argument flies in the face of Japan's own experience.

Since 1970 both savings and investment in Japan have dropped considerably relative to GNP. As economic growth began to slow, even before the first oil shock, the investment rate started to drop. Thereafter it fell precipitously, closing the decade 6% of GNP lower than at the start (see Chart 3). During the 1970s, Japan's economy-wide savings rate fell roughly in line with investment, keeping excess domestic savings and the corresponding current account surpluses small on average. Since 1980, by contrast, the investment rate has fallen a further 4% of GNP. Although the savings rate also declined for a time after the second oil shock, it later recovered. Large-scale excess savings emerged.

Investment and savings behavior has not been uniform across business, households, and government. The savings deficit of the business sector shrank by almost 3½% of GNP between 1970 and 1983 (see Table 6) because its gross savings fell less sharply than investment. The savings surplus of the household sector increased 2½ percentage points in the same period. Thus net savings of Japan's private sector rose by around 6% of GNP. Until recently, most were absorbed by the public sector. General government savings swung from a surplus of almost 2% of GNP in 1970 to a deficit that peaked in excess of 5% of GNP in 1979, for a swing of 7 percentage points; subsequent expenditure cuts reduced the swing to 5½ percentage points by 1983. The rest of the increase in net private savings was matched by the net increase in the current account surplus. In 1984 the surplus further increased by 1% of GNP, while the investment rate was essentially unchanged; thus either

Japan: domestic savings and investment percent of GNP

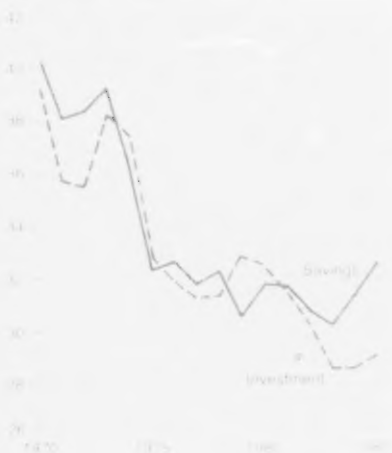


Table 6
Japan: savings and investment
percent of GNP

	1978	1980	1981
Gross domestic savings	40.3	31.8	39.4
Gross domestic investment	39.1	37.7	35.8
Net domestic savings ^a	1.1	-5.9	3.6
Business	-8.6	-6.8	-
Households**	9.7	-0.9	3.6
General government	1.0	-4.5	-1.7

^a Includes foreign savings and investment
^b Includes war, financing of the 1980
 Olympics, and other nonrecurring items

** Includes income, consumption taxes, and
 social security contributions

private or public sectors, or both, increased their savings rates. In 1985 the current account surplus is set for another substantial increase; since the domestic investment rate also appears to be rising slightly, the gross domestic savings rate must be up quite sharply.

Thus Japan's structural savings imbalance has been quite changeable historically. By the same token, Japan is not powerless in the face of its twin imbalances, domestic and external. Domestic policy changes can alter the factors motivating savings and investment. In particular, domestic demand stimulus in either the private or public sectors, can absorb excess savings and reduce current account surpluses.

Domestic demand prospects

Neither consumption nor investment by Japan's private sector has recovered the dynamism displayed during the boom years of the 1960s. In recent years the government has been holding the line on spending. The resulting weakness of overall domestic demand, documented below in some detail, makes it no small challenge for Japan to sustain moderately strong GNP expansion while simultaneously switching away from foreign sources of growth.

Private consumption has been the most volatile source of domestic demand in Japan since the end of investment-led growth 15 years ago. However, it has not grown strongly in recent years, partly because the tax system combines high marginal rates on regular income with tax-free savings provisions; the latter have become more generous, in effect, as interest rates have risen. The weakness in incomes also has held down consumption. Between 1980 and 1984, real nonfarm incomes increased by more than 2% only in 1982; real cash earnings, from wages and bonuses, have

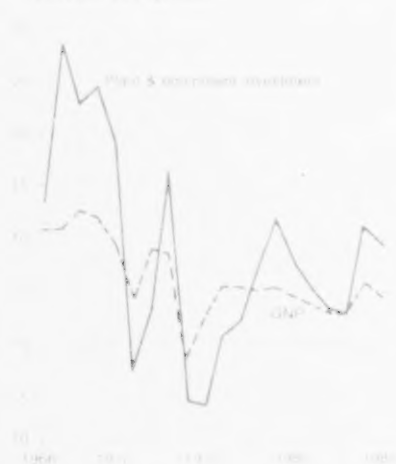
never grown more than 2% per annum despite real GNP growth averaging 4.3%.

The outlook is marginally more promising. The 5% rise in nominal wages from this year's spring wage round, supplemented by the 6% increase reported in midyear bonuses, should boost real incomes and consumption slightly over 3% during the next year. Still, the predominant 60% share of consumption makes it hard for real domestic demand growth to vary greatly from the 3%-3½% range in 1985 and 1986. Over the longer term, consumption will grow only modestly unless there is a major boost to income growth or a significant increase in incentives for consumption. The October measures will not accomplish either. Income growth will gain little, and the easing of regulations on minimum down payments and maximum maturity of consumer loans marks only a small step in the right direction.

Plant and equipment investment lost its exuberance once Japanese output growth receded after 1970 (see Chart 4). Adjustment has taken many years to accomplish: excess capacity was prevalent throughout the mid-1970s; surplus inventories were not worked off until 1978; and industrial production in 1977 still was lower than in 1973 (see Chart 5). Almost as soon as a hesitant recovery of plant and equipment investment began, it was interrupted by the second oil shock. However, the setback was less severe than after the first oil shock.

Major redirection of Japanese industry has taken place. Since 1980 capacity in the machinery and equipment industries has grown well over twice as fast as manufacturing in general (see Table 7); their share in all manufacturing output has risen from 38% to 47%; in addition, their operating ratios have been consistently higher and their inventory ratios lower. Not surprisingly, the

Japan: real investment and output growth
percent per annum



Industrial production, inventories and capacity utilization
1980-1984



Table 2
Selected indicators by collection
1985-1986

	1985	1986	1987
All manufacturing			
Production	100	119	135
Inventory**	100	100	100
Capacity	100	113	127
Operating rate	98	100	100
Machinery industry			
Production	100	146	150
Inventory**	91	93	100
Capacity	135	132	144
Operating rate	94	101	100

*Year to date, seasonally adjusted.
**In relation to shipments.

machinery and equipment industries have enjoyed a stronger investment recovery than has manufacturing in general. Meanwhile, investment has become more dependent on foreign demand. Domestically oriented firms, such as retailers and utilities, would be unlikely on their own to sustain strong aggregate investment were slow growth or increased protectionism in foreign markets to reduce exports, depress capacity utilization, and cause buildup of inventories.

Thus risk exists that there is room for continuing modest growth in Japan's plant and equipment investment. However, the 31% growth in 1984 was probably the cycle's peak. Investment growth is slowing this year to around 20%, in which case the percentage point or a one-time uptick from privatization of Nippon Telegraph and Telephone (NTT). Add the well-worn machine inventory. The October measures to spur utilities' investment will add little that wasn't already expected, although the actual investment may decrease relative to the early half of 1985. However, industry's plant and equipment investment next year may reach back to 1980's level, which would mean investment may fall from 18% of domestic demand to around 15% (see Chart 6). In 1979, the 1% annual increase added only 0.5% to 1980's 1% increase in investment, and growth.

Production-oriented investment has been weak since 1982 when it added 0.5 percentage point demand growth, a 1.5% rise in output. Output in 1982 grew by 0.5% and last year by 0.5% and the second oil shock did not rise every year from 1979 to 1984 to a cumulative decline of 18%. Cost and demographic factors were responsible. Since 1979, land prices and construction costs have run ahead of Japanese households' disposable income. More important, house purchase has become less attractive because high real in-

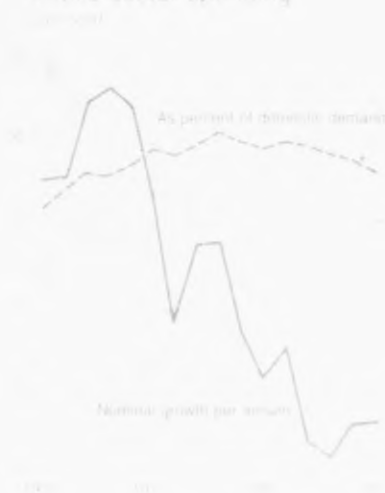
terest rates and modest income gains mean that mortgage repayments now decrease very slowly as a share of disposable income in the years following purchase. Low rates of population growth and household formation have further slowed investment.

Although high real interest rates continue to hold a lid on housing demand, they should not depress investment further over the next few years. Growth in real disposable income and relative stability in land prices and construction costs can be expected to increase residential investment by perhaps 3% to 3.5% annually. At that rate, it would take five years to reach the previous peak. The October measures may provide a modest short-term boost, but over the longer term the effects will be small — especially if this program, like that of 1982, is followed by a sharp slowdown in Housing Loan Corporation activity. Strong private residential investment remains dependent on major policy changes that reduce land and construction costs, improve financing conditions, or boost domestic incomes.

Public-sector spending rose sharply after the first oil shock, carrying its share of domestic demand from the 16% to 17% of the late 1960s to a peak of 20% in the late 1970s (see Chart 6), and contributing 28% of domestic demand growth from 1975 to 1979. However, during fiscal years 1982 to 1984, general account spending of the central government increased only 3% annually, a drastic 12 percentage point slowdown compared with the late 1970s. Because no other level of government took up the slack, the public-sector share of domestic demand fell to around 18% by 1984, undercutting the modest stimulus provided by private-sector demand.

Current plans call for further austerity. In both fiscal years 1985 and 1986, general account spending by the central government is set to grow

Public-sector spending



about 3½% in nominal terms, perhaps 1½% in real terms. Transfers to local governments and debt-service expenditures take up most of the growth; other expenditures will be almost fixed even in nominal terms. Under the Local Finance Plan nominal expenditures of local governments will grow at the somewhat faster rate of about 4½% (a portion represents double counting of transfers already included in the central government budget). The Fiscal Investment and Loan Program, the 'second budget' that allocates funds raised by the central government from postal savings, various reserve accounts, and certain bond issues, also is slated for low nominal growth. The October measures will change this picture only modestly, some of the announced expenditures merely shift previously planned expenditures forward, and local governments may choose not to use all their new borrowing authority.

Meanwhile, Japan's tax burden has ballooned. Tax and social security payments, 23% of GNP in FY 1970, will rise to a projected 36% in FY 1985 — little lower than in the United States, whereas the gap had been 12 percentage points in 1970. While tax policy has reduced government deficits and put the social security system on a more secure footing, it has curbed severely private investment, consumption, and housing expenditures. Current plans, which call for social security tax rates to go up and for other taxes to stay virtually unchanged, give no hope of demand stimulus. This makes even clearer the need for existing policies to change.

Japan's reluctance for policy change

Although the October measures provide a modest boost to the economy, the Japanese government remains reluctant to pursue truly stimulative

policies. Several factors underlie its reluctance. First is the prospective burden of supporting Japan's retirees next century; to help meet this burden, many in Japan deem vital the present buildup of foreign assets through the current account surplus. The pensions question has affected Japanese policy in other ways. Social security taxes rose from 9.1% to 10.6% of earnings in 1980 and to 12.4% this year, and it is conceivable that financing of the system will require still further increases. However, the rise in taxes has depressed disposable income and consumption growth. In a real sense, the current Japanese approach can be characterized as supporting its retirees at other nations' expense.

Second, there is the fear that government deficits are out of control. There were no deficits in the post-war years until FY 1965, and only small deficits through FY 1974 (see Chart 7). Once deficit bond issues (that is, bond issues not matched by capital expenditures) were permitted in 1975, they rapidly emerged as a major funding source: bonds covered 25% of general account expenditures in FY 1975 and, in the original budget, were slated to cover 40% in FY 1979. The ratio has since fallen back below 25%, effectively eliminating any threat to the economy; the large pool of domestic savings now makes the deficit easily financeable. Japan's overall public-sector deficit likewise has shrunk. In 1979 it approached 5% of GNP, a figure then exceeded only by Italy among major industrial countries. By 1984, however, it had fallen to 2.6% of GNP and, by 1986, is slated to decline to less than 1%. The structural budget deficit, already small in FY 1984, should turn into surplus by FY 1986. Net public debt outstanding has reached a little less than 50% of GNP in Japan. Being slightly below the corresponding

Central government deficit and debt service

percent of general account expenditures



Table 8

Scenarios for Japan's trade and current accounts: assumptions

	1985	1986	Average 1987-201
Japan: domestic demand, % change			
Unchanged policies	3.4	3.9	4.1
Higher demand	4.6	5.0	
Real effective exchange rate, 1980-82 = 100			
Yen			
Unchanged policies	95	100	103
Higher demand	105	105	105
Dollar			
Unchanged policies	101	103	106
Higher demand	112	112	112
6-month LIBOR, %	5.7	7.5	7.2
OECD excl. Japan real GNP, % change	2.3	3.1	2.8

* 1990 average

figures for the United States, Germany, and the United Kingdom. Japan's debt is not large in an international context.

Third, it is feared that government spending and deficits undermining Japan's monetary and anti-inflation policies. The experience of the last decade shows that this fear is unfounded. Since 1975 the Bank of Japan has targeted M2-CDs (certificates of deposit), gradually slowing its growth by some 6 percentage points to 9% per year. This compares favorably with expansion during the 15 years preceding adoption of the new target, when annual growth in M2 had ranged from 12% to 25%. Consumer price inflation peaked in 1974 at 25%, but fell back below 4% by 1978. After a brief surge triggered by the second oil shock, inflation now averages around 2% per year, with no significant upward pressures in sight.

Fourth, policymakers fear that deficits reduce their freedom to set interest rates. On casual inspection these fears might seem to be justified: financial institutions have balked on several occasions at accepting government securities whose yield they considered inadequate, and the Bank of Japan has been reluctant to cut the discount rate since it was lowered to 5% in October 1983. In fact, however, it is motivated mainly by concern to avoid yen weakness. To the extent official control of domestic interest rates has diminished, the real cause lies in the growing internationalization of the Japanese economy, which encourages Japanese investors to adjust their portfolios in light of perceived returns, not only on government securities, but on other domestic and international securities as well.

Fifth, policymakers presume stimulative domestic policies can have but limited effects on Japan's trade and current account surpluses. In

view of Japan's low propensity to import, they prefer to attack current account surpluses by reducing Japan's exports through yen appreciation or export controls. Yen appreciation is the authorities' first preference, followed only later by relaxation of monetary policy, once the risks of yen depreciation appear slight.

What demand stimulus could do

The relative potential of more forceful Japanese macroeconomic policies and yen appreciation can be assessed using two scenarios for the Japanese economy. The base case assumes that the major measures are taken in Japan, that a modest recovery continues through 1990 in the United States and Europe, that inflation stays low in both the United States and Japan, and that the yen appreciates over the next three years to 160 yen per dollar (see Table 8). This base case yields little narrowing of the payments imbalances troubling Japan's relations with its trade partners. The trade surplus would peak at \$58 billion in 1986 and then decline only to \$37 billion by 1990 (see Table 9). The current account surplus also would peak at \$52 billion in 1986, up from \$35 billion in 1984. By the end of the decade, it would fall back only to \$36 billion, a still substantial 1.6% of GNP.

This first scenario probably takes an optimistic view of present policies; the alternative is for Japan to pursue more stimulative macroeconomic policies. The second scenario supposes that Japan introduces measures to boost domestic demand growth one percentage point above that assumed in the base case from 1986 to 1990. Further, it assumes that this extra strength in domestic demand would lead to additional appreciation of the yen, reaching 180 yen per dollar by the

Table 9

Scenarios for Japan's trade and current accounts: results

billions of dollars, except as noted

	1984	1985	1986	1990
Trade surplus				
Unchanged policies	44	56	58	37
Higher demand			54	3
Current account surplus				
Unchanged policies	35	52	52	36
Higher demand			47	3
Current account surplus % of GNP				
Unchanged policies	2.3	3.5	3.4	1.6
Higher demand			2.8	0.1
Net foreign assets				
Unchanged policies	74	123	176	306
Higher demand			171	228
Real GNP, % change				
Unchanged policies	5.9	4.6	3.4	3.9
Higher demand			2.9	4.9

end of 1988. Under these conditions Japan's current account surplus could be virtually eliminated, by 1990, while the trade surplus (balance of payments definition) would equal only 0.4% of GNP. Of the \$36 billion decline in the current account surplus by 1990 relative to the base case, \$13 billion (or 36%) would come directly from the boost in demand, and \$23 billion (64%) from the additional yen appreciation. Even the latter part should be attributed indirectly to higher demand for without stronger economic growth such appreciation is unlikely. Moreover, the share directly attributable to demand would be even higher were Japan to move forcefully to open its markets and thereby raise its aggregate propensity to import.

Boosting Japan's domestic demand and curbing its excess savings require that the nation's consumption and investment be increased, whether through the public sector, the private sector, or both. Monetary policy can do little: stimulus would weaken the yen and increase the trade surplus. Tightening might strengthen the yen but would hardly stimulate demand. Instead, together with further financial liberalization, the fiscal front should be the focus, in terms both of the fiscal balance and the tax structure's impact on private-sector incentives.

In the public sector, a more relaxed approach to spending need not imply abandonment of discipline. The time has come to reverse the neglect of public investment. There is scope for new channels to support investment over and above what is possible within existing arrangements for public works financing. For example, some investments could be undertaken as joint projects between the public and private sectors; others by newly created public entities enjoying powers of tax-exempt bond issue. Privatization, launched in April for NTT and now

under discussion for Japan Air Lines, also can transfer credit demands into the private sector. However, such actions will boost demand only insofar as they free general account funds for other uses or enable regulated businesses and local governments to step up investment with fewer funding restraints.

The government also could boost private-sector demand by cutting taxes. Business tax cuts would help investment, especially in smaller enterprises that traditionally rely on retained earnings or bank loans; personal tax cuts would help consumption. Given the dearth of domestic demand, tax cuts are plainly preferable to the kind of "revenue-neutral" tax reform that is much discussed in Japan. That would involve a shift from direct to indirect taxation with uncertain implications for demand.

There is much to be said for reducing the deterrent to borrowing implicit in Japan's existing tax code. Replacing the current system's meager credits for housing by increased deductibility of interest payments from taxable income, coupled with expanded liability of interest income to tax, would facilitate borrowing and thereby boost consumption and housing demand. Further easing of restrictions on minimum down payments and maximum loan maturities would encourage borrowing in general, while housing specifically would benefit from a change in the taxation of land sales and an increase in the maximum loan amount available to individuals through the Housing Loan Corporation. Given the slowdown in their lending to corporations, banks should find consumer loans and mortgages an attractive alternative. Eventually, the pool of private-sector mortgages could become large and standardized enough for secondary trading — an activity that domestic or foreign financial institutions may find

attractive and that also could absorb some of the excess savings of Japanese investors.

Policy consistency

The central challenge for international economic management is the achievement of a fair degree of consistency in the policies of the major industrial countries. Yet, after ten years of economic summitry by heads of state, and a much longer history of interchange at other levels, this September's G-5 meeting confronted international payments imbalances that are the largest in postwar history — eclipsing even those engendered by the two oil shocks. Further darkening the picture today are the continuing economic woes of many developing countries and the near-universal rise of protectionism and acrimony in trade relations.

To pin all these troubles on a single cause, such as the U.S. budget deficit, is a misleading oversimplification. While criticism of the deficit is not without substance, it deflects attention from other failings in the world economy and obscures responsibility for their correction. Nowhere is this more true than in attitudes toward the \$135 billion U.S. trade deficit, which both Europe and Japan are prone to see as a U.S. problem whose resolution is devoid of implication for their own economic and trade policies. So large an international imbalance can be successfully addressed only within the framework of a cooperative international strategy.

Japan still sees its trade and current account surpluses as a virtue, confirming the correctness of its policies and providing financial security into the next century. In fact, those surpluses evidence unwarranted sluggishness in Japan's domestic economy. Moreover, the scale of the Japan-U.S. bilateral imbalance is

causing grave problems for important segments of the U.S. economy. Even recognized internationalists in the Congress have begun to push for punitive retaliatory measures whose consequences would be hard to contain and damaging for both Japan and the United States.

At present, the Japanese authorities appear to place primary reliance on further appreciation of the yen, to a level closer to 200 to the dollar. Intervention has gone some way toward achieving this objective, but may not prove effective for long. Some observers on both sides of the Pacific suggest that intervention be buttressed by administrative guidance to discourage the outflow of capital from Japan, and possibly be supplemented by the reintroduction of formal controls. This approach has serious deficiencies. Were Japanese capital outflows successfully stifled, there would be upward pressure on U.S. interest rates that could well trigger a new cycle of U.S. and global recession. In the longer term, controls might well be circumvented and lose effectiveness.

In any event, resort to capital controls would mark the breakdown of international cooperation. It also would constitute a serious setback to the whole thrust of the past ten years, to liberalize capital flows among the major countries; thoughtful observers judge controls on capital to be every bit as damaging to global economic efficiency as the more widely acknowledged costs of trade protection. Acceptance of the necessity for consistency in macro-economic policies is the best way forward. For the United States, it means pressing ahead with plans to reduce the budget deficit over the next few years to a level below 3% of GNP. For Japan, it means putting aside existing commitments in fiscal policy in favor of speedy and substantial measures to reflate domestic demand.

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Information herein is from sources
considered to be reliable, but is furnished
without responsibility on the part of
Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1985=100

	United Kingdom	Canada	USA	France	Germany	Italy	Japan	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	100.0	100.4	95.5	96.0	100.0	100.0	102.4	99.3	99.4	105.9	100.2	106.5	95.4	105.1	103.9
1981	98.5	106.2	99.8	104.0	105.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1
1982	109.5	99.4	98.8	100.1	93.1	100.8	92.8	88.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7
1983	114.2	100.8	107.8	92.8	87.3	107.6	90.3	91.0	103.6	90.0	105.0	78.4	111.5	96.4	99.4
1984	122.4	97.1	118.0	98.2	84.4	107.4	86.7	86.1	103.6	86.6	104.0	77.4	110.5	93.9	97.8
1984															
October	120.8	96.1	119.0	93.6	85.0	106.8	85.7	86.1	103.2	88.7	103.2	77.0	109.8	93.4	97.1
November	120.8	96.1	119.1	93.6	84.0	106.7	85.8	86.2	103.4	88.3	103.5	77.4	110.2	94.2	95.5
December	120.8	96.3	119.0	94.4	87.6	106.7	85.9	85.1	103.2	88.3	103.0	77.8	109.5	94.5	95.0
1985															
January	124.0	96.9	120.0	95.8	85.7	108.2	78.1	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7
February	124.4	96.1	120.0	95.8	85.8	108.2	78.4	81.0	103.3	89.3	102.6	77.6	107.9	94.4	95.8
March	124.3	95.2	121.0	95.0	88.0	108.8	81.7	84.0	103.0	89.9	102.3	77.2	106.8	94.3	95.7
April	124.0	94.3	121.0	94.0	84.0	108.7	81.0	84.0	102.9	89.2	102.9	77.2	106.0	94.5	96.0
May	123.0	93.0	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.5	107.4	93.7	96.0
June	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
July	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
August	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
September	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
October	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
November	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
December	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
1986															
January	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
February	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
March	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
April	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
May	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
June	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
July	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
August	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
September	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
October	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
November	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
December	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8

Real effective exchange rates — industrial countries

Index numbers, 1985=100

	United Kingdom	Canada	USA	France	Germany	Italy	Japan	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	98.5	106.2	99.8	104.0	105.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1
1982	109.5	99.4	98.8	100.1	93.1	100.8	92.8	88.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7
1983	114.2	100.8	107.8	92.8	87.3	107.6	90.3	91.0	103.6	90.0	105.0	78.4	111.5	96.4	99.4
1984	122.4	97.1	118.0	98.2	84.4	107.4	86.7	86.1	103.6	86.6	104.0	77.4	110.5	93.9	97.8
1984															
October	120.8	96.1	119.0	93.6	85.0	106.8	85.7	86.1	103.2	88.7	103.2	77.0	109.8	93.4	97.1
November	120.8	96.1	119.1	93.6	84.0	106.7	85.8	86.2	103.4	88.3	103.5	77.4	110.2	94.2	95.5
December	120.8	96.3	119.0	94.4	87.6	106.7	85.9	85.1	103.2	88.3	103.0	77.8	109.5	94.5	95.0
1985															
January	124.0	96.9	120.0	95.8	85.7	108.2	78.1	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7
February	124.4	96.1	120.0	95.8	85.8	108.2	78.4	81.0	103.3	89.3	102.6	77.6	107.9	94.4	95.8
March	124.3	95.2	121.0	95.0	88.0	108.8	81.7	84.0	103.0	89.9	102.3	77.2	106.8	94.3	95.7
April	124.0	94.3	121.0	94.0	84.0	108.7	81.0	84.0	102.9	89.2	102.9	77.2	106.0	94.5	96.0
May	123.0	93.0	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.5	107.4	93.7	96.0
June	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
July	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
August	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
September	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
October	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
November	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
December	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
1986															
January	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
February	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
March	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
April	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
May	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
June	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
July	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
August	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
September	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
October	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
November	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8
December	123.0	93.2	121.0	94.0	84.0	108.8	81.0	84.0	102.9	89.0	102.9	76.3	107.6	94.3	95.8

Real effective exchange rates — developing countries

Index numbers, 1985=100

	Argentina	Brazil	Chile	Colombia	Costa Rica	Ecuador	El Salvador	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.2	94.7	104.0	93.1	91.2	96.4	89.6	95.9	96.2	93.3	98.6	100.8	92.9	100.2
1981	107.7	123.2	108.1	102.4	114.1	103.2	99.6	104.4	99.6	101.2	99.3	101.2	102.7	102.6	99.3	104.4
1982	78.8	112.5	96.7	104.8	81.9	103.8	100.1	102.0	111.8	102.9	104.5	105.0	98.7	96.5	107.7	95.4
1983	75.0	88.4	88.7	113.0	78.8	97.7	116.1	96.6	95.1	97.3	112.7	95.1	97.1	93.1	119.5	92.8
1984	73.8	80.9	83.9	99.0	81.5	103.8	93.9	100.0	98.7	93.9	119.1	107.4	95.8	95.5	118.3	90.6
1985																
September	88.7	88.4	88.1	101.1	84.2	109.7	85.6	100.0	97.4	97.7	123.3	113.8	96.9	98.9	122.0	94.0
October	88.2	84.7	84.4	98.4	86.0	107.8	87.3	100.0	97.8	97.3	121.1	112.4	96.1	98.2	122.0	94.5
November	73.7	88.4	88.1	97.3	80.8	103.8	87.8	104.7	96.5	96.2	119.7	109.0	95.6	96.6	122.0	95.4
December	70.7	87	88.0	98.0	80.1	113.8	89.0	107.1	98.7	96.8	121.3	111.9	95.5	97.4	114.2	95.5
1986																
January	123.0	88.1	88.1	99.0	87.8	98.4	90.7	108.8	101.5	97.0	120.5	118.4	95.7	98.3	109.5	98.0
February	79.4	101.1	89.8	98.7	100.0	88.0	94.4	111.3	107.2	97.8	119.4	123.8	95.7	98.5	119.5	102.3
March	79.0	87	88.0	98.0	100.8	87.2	94.4	111.3	107.2	96.2	118.7	123.4	95.7	98.6	116.0	101.5
April	78.1	88.0	87.0	97.0	88.0	81.3	90.4	108.1	108.7	97.7	118.9	118.7	94.3	96.1	112.6	96.3
May	101.0	88.0	88.0	98.1	87.4	81.0	90.3	108.8	108.7	97.0	118.0	117.4	93.0	95.2	104.6	94.2
June	78	87.0	87.0	98.0	87.1	81.0	87.4	108.0	108.0	96.0	118.0	117.0	91.2	94.5	105.3	90.1
July	78	87.0	87.0	98.0	87.1	81.0	87.4	108.0	108.0	96.0	118.0	117.0	91.2	94.5	105.3	90.1
August	107.0	84.0	79.0	91.4	88.0	86.7	87.4	113.8	93.8	90.8	114.2	111.8	95.9	90.3	101.2	85.0

International banking market size

At end of period. In billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Gross claims									
Eurocurrencies, on residents and nonresidents	1 928	2 146	2 252	2 339	2 338	2 322	2 352	2 461	
On nonbanks	517	588	603	685	678	676	654	708	
On banks	1 412	1 558	1 649	1 654	1 661	1 646	1 698	1 753	
In dollars	1 454	1 571	1 707	1 841	1 850	1 851	1 887	1 974	
In other currencies	474	587	545	413	488	465	465	514	
Domestic currencies, on nonresidents	785	358	238	400	406	393	397	402	
On nonbanks	123	137	138	136	140	138	137	140	
On banks	662	221	100	264	266	255	260	262	
In dollars	126	131	110	206	218	208	210	201	
In other currencies	177	187	187	158	188	185	187	201	
Total	2 713	2 504	2 490	2 739	2 744	2 715	2 749	2 863	
On nonbanks	640	725	741	821	818	814	821	848	
On banks	1 873	1 779	1 749	1 918	1 926	1 901	1 928	2 015	
In dollars	1 882	1 888	2 018	2 047	2 065	2 065	2 097	2 148	
In other currencies	531	591	531	471	668	650	652	715	
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 914	2 158	2 278	2 362	2 360	2 349	2 383	2 481	
To nonbanks	512	580	604	680	670	670	650	708	
To official monetary institutions	187	81	81	81	81	81	81	96	
To other banks	1 415	1 597	1 693	1 771	1 769	1 763	1 787	1 877	
In dollars	1 453	1 711	1 841	1 841	1 850	1 851	1 887	1 974	
In other currencies	462	577	557	430	488	465	465	514	
Domestic currencies, to nonresidents	283	250	258	262	277	274	277	289	
To nonbanks	34	32	31	31	31	31	31	31	
To banks	149	118	127	131	146	143	146	158	
In dollars	126	116	113	128	140	140	143	143	
In other currencies	127	102	114	103	106	103	103	115	
Total	2 217	2 418	2 536	2 624	2 637	2 623	2 660	2 770	
To nonbanks	446	562	550	511	574	564	577	586	
To banks and official institutions	1 771	1 856	1 986	2 093	2 063	2 059	2 083	2 184	
In dollars	1 865	1 851	1 978	2 010	2 045	2 052	2 092	2 144	
In other currencies	550	561	557	514	592	571	568	626	
Net market size	1 155	1 285	1 377	1 395	1 417	1 407	1 415	1 442	

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-Sep	
				Jul	Aug	Sep	1985	1984
By country of borrower								
Industrial countries	108 772	102 652	177 077	12 399	22 108	15 311	153 161	134 747
Australia	7 213	5 737	5 816	260	310	362	7 535	3 703
Austria	2 068	1 290	2 254	81	245	210	1 930	1 857
Belgium	1 528	2 168	1 847	58	208	121	2 084	1 366
Canada	15 856	8 571	13 124	1 830	1 718	236	13 427	8 201
Denmark	2 725	3 341	4 825	106	341	267	2 808	4 241
Finland	1 446	1 271	1 713	27	76	115	1 233	1 279
France	14 813	8 626	11 296	1 581	4 890	793	14 680	8 823
Germany	1 101	3 197	2 165	411	293	154	2 012	1 545
Greece	808	1 291	1 551	—	188	101	1 567	1 047
Ireland	1 139	1 889	1 377	—	—	338	1 247	991
Italy	6 687	4 670	6 503	—	—	761	8 767	3 568
Japan	8 397	14 428	17 526	1 555	1 350	1 444	16 185	14 846
Netherlands	1 003	1 218	1 875	216	294	273	1 781	1 637
New Zealand	4 786	802	3 308	264	203	—	1 814	1 716
Norway	2 907	1 969	1 224	338	307	284	2 987	950
Portugal	1 834	1 030	1 796	33	243	163	1 592	1 612
South Africa	1 859	1 300	1 472	—	—	—	—	1 174
Spain	2 675	4 977	4 831	498	44	348	3 381	3 634
Sweden	3 181	7 144	13 258	—	1 977	247	8 391	9 602
United Kingdom	2 876	8 726	8 399	811	2 486	4 046	16 535	6 120
United States	21 109	20 276	65 064	3 057	6 247	2 421	38 494	51 881
Other*	3 253	3 950	6 785	—	23	2 217	2 900	4 953
Developing countries	49 023	38 256	39 725	1 851	5 557	2 495	24 140	29 057
Latin American countries	29 867	15 592	17 464	288	4 048	140	5 773	12 781
Argentina	3 588	1 700	4 212	—	3 700	—	3 700	12
Brazil	3 372	4 478	8 649	—	—	—	—	6 586
Chile	1 194	1 408	784	—	—	—	—	784
Colombia	276	582	589	—	—	—	124	589
Mexico	9 960	8 138	3 918	—	—	—	—	3 918
Venezuela	2 241	237	—	—	—	—	—	—
Other**	2 080	2 078	1 312	—	346	182	1 393	892
Asian countries	11 723	12 979	15 893	3 085	1 489	2 215	14 667	11 514
India	555	468	545	517	41	21	517	501
Indonesia	1 822	2 308	1 921	—	—	—	451	1 873
Korea	1 277	4 237	8 011	314	381	498	4 634	4 796
Malaysia	2 572	2 147	2 905	—	—	—	1 702	1 743
Philippines	388	878	925	—	—	—	905	—
Thailand	414	747	1 221	50	71	234	1 101	905
Other	1 891	1 408	3 272	3 279	189	1 362	5 346	1 696
Middle Eastern and African countries	7 633	9 685	6 368	495	20	50	3 699	4 762
Algeria	26	1 899	821	—	—	—	1 300	200
Nigeria	2 905	2 343	255	—	—	—	—	985
Turkey	277	1 106	747	—	30	—	624	716
Other	1 295	2 244	1 821	495	—	50	1 776	2 861
Eastern European countries	1 479	1 284	3 244	1 125	898	52	4 082	2 495
Hungary	540	741	1 386	625	388	52	1 148	1 265
Soviet Union	1 131	33	1 051	500	200	—	1 189	904
Other***	8	469	807	—	100	—	1 745	326
International organizations****	11 353	16 201	13 287	2 259	1 434	1 751	15 638	8 502
By type of instrument and currency								
International bond issues	78 042	76 329	107 411	11 524	13 493	13 213	121 147	74 872
Eurobonds	57 943	49 505	73 426	5 438	11 745	10 647	99 741	53 862
U.S. dollar	43 058	38 428	57 530	2 542	5 127	5 715	73 382	43 732
German mark	2 588	3 817	4 624	—	328	656	4 998	3 214
British pound	748	1 047	3 987	—	326	804	3 806	2 552
Japanese yen	574	212	1 212	439	900	127	4 353	409
European composite unit	1 860	3 218	1 225	767	437	746	5 278	2 048
Other	1 066	3 278	4 220	5 277	6 206	489	7 925	1 907
Foreign bonds	28 397	27 228	27 283	6 086	1 748	2 566	21 407	21 010
U.S. dollar	5 946	4 545	9 487	1 140	—	145	3 441	3 787
German mark	2 952	2 671	2 243	—	160	121	1 373	1 409
British pound	1 214	811	1 292	142	140	101	674	1 019
Swiss franc	11 432	14 299	12 626	1 236	859	1 035	9 140	10 554
Japanese yen	3 418	3 772	4 628	536	375	870	5 050	3 061
Other	1 435	1 730	1 877	273	184	295	1 729	1 180
International bank credits	92 585	82 074	125 922	8 125	16 205	8 306	75 873	99 929
Eurocurrency credits	85 018	74 220	112 605	7 688	15 572	8 576	71 066	88 308
Foreign credits	7 570	7 852	13 317	437	633	731	4 807	11 621
Total	170 627	158 403	233 333	19 649	29 698	19 519	197 020	174 801

*Includes multinational organizations

**Includes unallocated

***Includes COMECON transactions

****Includes regular development organizations

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
Eurodollar										
overnight	9.25	9.50	8.63	8.81	8.91	7.50	8.60	8.50	7.56	8.38
one month	9.13	9.69	8.38	8.89	8.38	7.56	7.63	7.94	7.94	7.94
three months	9.19	9.81	8.63	8.90	8.89	7.63	7.75	8.19	8.00	8.06
six months	9.50	10.06	9.13	9.44	9.00	7.88	7.88	8.44	8.13	8.31
twelve months	9.63	10.36	9.81	10.13	9.75	8.98	8.29	8.85	8.56	8.56
Euro-Canadian dollar										
one month	10.00	9.13	9.88	10.38	9.60	9.50	9.00	8.69	8.75	8.38
three months	10.00	9.50	10.81	10.56	9.81	9.50	9.38	8.94	8.94	8.69
six months	10.13	9.75	10.00	10.69	10.55	9.63	9.50	9.31	9.19	9.06
twelve months	10.25	10.06	10.44	12.00	10.75	9.94	9.63	9.50	9.50	9.38
Euro-French franc										
one month	23.00	13.13	10.69	10.83	10.31	10.11	10.50	14.00	9.89	9.63
three months	24.00	12.19	10.69	10.81	10.44	10.25	10.63	14.00	10.63	10.50
six months	22.00	12.11	11.00	11.25	10.75	10.35	10.75	13.75	11.50	10.88
twelve months	19.75	12.63	11.38	11.36	10.94	10.63	11.00	13.00	11.75	11.25
Euromark										
one month	5.98	5.25	5.50	5.69	5.75	5.50	5.44	4.69	4.50	4.44
three months	5.85	5.88	5.50	5.88	5.81	5.56	5.44	4.81	4.50	4.50
six months	5.94	5.13	5.18	6.09	5.88	5.56	5.50	4.94	4.56	4.63
twelve months	6.00	6.58	5.58	6.23	6.06	5.88	5.81	5.00	4.69	4.75
Euro-Dutch guilder										
one month	5.19	5.81	5.88	6.89	6.94	7.40	6.25	6.06	5.75	5.69
three months	5.13	6.00	5.75	6.81	6.84	6.88	6.80	6.00	5.69	5.69
six months	5.58	6.25	5.81	6.89	6.84	6.88	6.80	6.00	5.69	5.69
twelve months	5.63	6.38	5.94	6.94	7.00	6.81	6.89	6.00	5.69	5.69
Euro-Swiss franc										
one month	3.81	3.58	4.44	5.19	5.00	5.13	5.13	4.38	4.44	4.19
three months	3.95	3.75	4.56	5.50	5.19	5.13	5.20	4.50	4.56	4.50
six months	3.44	3.89	4.63	5.56	5.25	5.06	5.13	4.63	4.69	4.63
twelve months	3.44	3.89	4.69	5.44	5.25	5.09	5.25	4.69	4.63	4.63
Eurosterling										
one month	10.58	8.13	9.50	13.56	12.75	12.63	12.69	11.50	11.88	11.63
three months	10.44	8.21	9.88	13.13	12.68	12.44	12.44	11.19	11.63	11.50
six months	10.71	8.50	10.00	12.31	12.44	12.50	12.40	11.00	11.13	11.19
twelve months	10.31	9.81	10.49	11.64	12.13	12.01	11.94	10.88	11.06	11.00
Euroyen										
one month	6.75	6.25	6.13	6.25	6.13	6.31	6.13	6.25	6.44	6.75
three months	6.75	6.31	6.19	6.31	6.25	6.13	6.13	6.31	6.38	6.38
six months	7.10	6.38	6.13	6.31	6.31	6.25	6.25	6.25	6.31	6.38
twelve months	6.81	6.44	6.13	6.31	6.31	6.31	6.31	6.25	6.31	6.38
European currency unit										
one month	12.44	8.81	9.25	10.00	9.38	9.31	9.38	8.50	8.00	8.31
three months	12.31	8.19	9.38	10.13	9.38	9.31	9.38	8.50	8.50	8.50
six months	12.00	9.44	9.50	10.13	9.68	9.38	9.38	8.63	8.75	8.75
twelve months	11.19	8.63	9.63	10.25	9.88	9.68	9.38	8.75	8.88	8.88

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1983	1984	1985							
	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States companies										
Eurodollar	11.39	11.25	11.65	11.73	11.24	10.58	10.39	10.65	10.37	10.53
Euromark	7.34	6.95	7.57	7.35	7.11	6.90	6.91	6.74	6.67	6.74
Swiss franc	5.83	5.73	5.95	5.86	5.74	5.69	5.60	5.69	5.60	5.62
European governments										
Eurodollar	12.65	12.04	12.40	12.29	11.97	11.20	11.17	11.31	11.11	11.16
Euromark	8.12	7.39	7.88	7.61	7.54	7.17	7.38	7.17	6.89	6.96
Swiss franc	5.63	5.24	5.35	5.34	5.21	5.20	5.22	5.16	5.09	5.00
European currency unit	11.77	10.64	10.65	10.44	10.39	10.10	10.17	9.99	10.01	10.14

Central bank discount rates

at or near end of month

	1982	1983	1984	1985						Current	
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep		Oct 25 1985	effective since
United States	8.50	8.50	8.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	May 17, 85
Canada	10.00	9.98	10.00	9.75	9.58	9.31	9.20	9.00	8.77	8.77	Oct 24, 85
Austria	4.75	3.75	4.50	4.50	4.50	4.50	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	11.50	10.00	11.00	9.50	9.25	9.50	10.00	9.50	9.00	9.00	Oct 17, 85
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	9.00	8.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	8.50	8.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	8.00	4.00	4.50	4.50	4.50	4.50	4.00	4.00	4.00	4.00	Aug 16, 85
Ireland	14.00	12.25	14.00	12.75	12.00	11.25	11.25	10.25	10.25	10.25	Sep 11, 85
Italy	18.00	17.00	16.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	5.00	8.00	5.00	5.50	5.50	5.50	5.00	5.00	5.00	5.00	Aug 16, 85
Norway	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	25.00	25.00	25.00	25.00	25.00	23.00	23.00	23.00	23.00	Aug 85
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	11.00	11.50	10.50	10.50	10.50	10.50	10.50	Jul 12, 85
Switzerland	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	11.00	8.00	9.75	12.25	12.25	11.31	11.31	11.31	11.31	11.31	Jul 26, 85
Japan	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	10.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul 81
South Africa	15.45	18.40	21.75	20.25	19.25	18.25	18.50	18.50	14.50	14.50	Oct 22, 85
Argentina*	10.58	18.19	16.19	32.60	6.30	6.00	6.00	7.50	n.a.	n.a.	Sep, 85
Korea	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.00	8.00	12.11	12.07	12.39	12.39	12.37	n.a.	n.a.	n.a.	Aug 85
Singapore	7.50	7.50	6.00	5.50	5.50	5.50	5.00	5.00	n.a.	n.a.	Jul 85
Thailand	12.50	10.00	12.00	12.00	12.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	15.00	11.00	11.00	9.00	9.00	9.00	9.00	9.00	8.00	8.00	Oct 16, 85

*Percent per month

Day-to-day money rates

monthly averages

	1982	1983	1984	1985							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	8.95	9.47	8.38	8.50	8.58	8.27	7.97	7.51	7.88	7.90	7.92
Canada	10.53	8.78	10.50	9.68	10.41	10.25	9.75	9.56	9.27	8.97	8.53
Austria	6.00	5.75	5.63	6.50	6.75	6.88	6.13	6.13	6.13	5.38	4.88
Belgium	9.28	7.39	9.12	8.99	9.19	9.45	8.84	8.00	6.97	8.17	7.91
Finland	11.50	16.70	18.07	14.18	14.00	13.96	13.60	13.77	13.60	13.43	13.11
France	12.68	12.27	10.65	10.65	10.67	10.48	10.17	10.22	9.88	9.68	9.57
Germany	6.15	5.61	5.62	5.78	5.85	5.70	5.67	5.52	5.16	4.83	4.59
Ireland	14.54	12.19	14.50	14.75	14.63	13.62	12.63	12.00	11.50	10.75	9.50
Italy	16.00	17.88	19.28	16.00	16.00	15.77	15.46	15.25	15.00	14.53	n.a.
Netherlands	5.51	5.84	5.50	5.75	5.93	6.74	7.15	6.81	6.63	5.92	5.74
Norway	11.50	12.30	12.50	12.80	11.60	13.40	12.20	13.00	12.60	12.75	12.00
Spain	15.81	16.72	12.13	12.12	11.99	10.42	12.55	13.93	12.39	12.99	10.86
Sweden	9.31	11.32	11.68	13.50	13.50	13.49	14.89	16.00	15.39	15.00	15.00
Switzerland	1.25	1.88	1.30	1.78	2.50	2.00	2.25	2.00	2.00	2.50	2.00
United Kingdom	6.70	7.78	6.31	11.94	10.60	12.38	11.26	10.17	12.45	11.25	9.89
Australia	11.04	4.56	10.68	11.14	13.34	14.78	15.12	15.27	15.10	n.a.	n.a.
Japan	6.92	6.44	6.41	6.16	6.42	6.07	6.01	6.13	6.17	6.17	6.41
South Africa	14.15	16.06	21.13	21.55	21.50	21.50	19.81	18.60	17.50	16.25	15.20
Argentina*	12.77	14.65	17.75	18.63	20.35	23.74	32.00	24.52	5.00	5.00	5.00
Brazil	150.42	184.68	272.02	287.83	337.15	346.05	302.31	239.40	214.19	n.a.	n.a.
Hong Kong	9.13	13.90	6.80	6.18	6.15	7.21	5.88	6.35	4.95	2.74	4.71
Korea	13.84	11.40	10.00	9.30	9.70	9.20	9.50	9.00	9.50	9.70	9.40
Philippines	16.12	31.16	15.22	19.80	27.80	25.97	25.12	25.95	20.36	18.39	n.a.
Singapore	11.45	7.05	6.01	6.07	5.30	4.69	5.75	5.18	4.94	4.37	n.a.

*Percent per month

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	8.15	8.28	7.99	8.87	8.42	8.08	7.63	7.05	7.40	7.36	7.13
Canada	9.80	9.71	9.64	11.27	10.40	9.77	9.51	9.33	9.06	8.95	8.75
Belgium	12.42	11.00	10.90	10.80	10.60	9.83	9.13	9.02	9.63	9.63	9.28
Ireland	15.25	12.01	15.10	14.34	13.77	13.43	12.21	11.29	10.38	10.43	9.89
Italy	18.11	16.95	14.69	13.46	13.38	14.31	14.22	14.18	14.08	13.99	13.82
Netherlands	8.63	8.63	8.88	8.51	8.75	7.00	6.75	6.75	6.25	5.75	5.75
Spain	15.29	14.46	n.a.	12.04	10.45	11.85	10.33	10.27	n.a.	n.a.	n.a.
Sweden	12.90	11.75	11.82	14.28	14.33	14.47	16.48	16.64	15.04	15.00	15.33
United Kingdom	9.90	9.04	9.33	13.91	12.77	12.26	12.16	12.33	11.30	11.31	11.38
Australia	9.38	8.94	12.27	13.51	14.82	14.72	14.25	13.70	14.70	16.17	n.a.
Japan	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	7.80	13.50	11.45	19.50	23.10	21.00	21.00	24.00	n.a.	n.a.
South Africa	14.62	18.43	21.94	23.91	22.45	21.92	18.78	16.00	15.48	15.72	15.22
Brazil	115.40	179.15	273.03	273.03	273.03	273.03	215.12	208.88	229.13	n.a.	n.a.
Mexico	57.44	54.75	65.67	50.00	58.15	57.88	63.34	62.47	74.99	70.56	n.a.
Philippines	14.54	15.99	11.14	30.32	34.29	34.22	35.32	39.43	29.59	21.60	n.a.
Singapore	2.74	2.69	2.91	2.92	2.97	3.94	3.07	2.79	2.68	2.79	2.97

Representative money market rates

bond equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	8.94	9.80	8.24	9.18	8.94	8.39	7.70	7.70	7.85	7.91	7.89
Canada	9.98	9.97	10.10	11.80	10.55	10.20	9.80	9.70	9.25	9.15	8.95
Belgium	12.35	11.00	10.70	10.70	10.45	10.10	9.25	8.90	8.90	9.60	9.35
France	12.75	12.19	10.80	10.69	10.63	10.31	10.28	10.25	10.00	9.75	9.44
Germany	6.20	5.30	5.75	6.25	6.70	6.90	5.80	5.80	5.00	4.65	4.65
Ireland	15.75	12.19	15.11	14.75	13.75	12.75	12.75	11.69	10.50	10.38	10.25
Italy	19.00	17.88	17.25	16.13	16.75	15.25	15.00	14.75	14.26	14.25	13.38
Netherlands	5.25	6.00	6.75	7.19	6.89	5.73	6.94	6.69	6.13	5.75	5.81
Portugal	15.05	24.11	24.57	24.53	24.61	24.52	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	18.55	18.48	12.13	12.22	12.15	12.34	12.49	14.04	n.a.	n.a.	n.a.
Switzerland	9.88	8.85	5.00	6.13	5.75	5.38	5.38	5.38	5.38	4.63	4.69
United Kingdom	10.50	9.31	9.85	13.28	10.96	12.56	12.44	12.44	11.13	11.56	11.50
Australia	10.65	9.50	12.80	14.60	15.60	15.70	15.05	15.55	15.15	n.a.	n.a.
Japan	6.90	6.42	6.29	6.32	6.27	6.25	6.25	6.30	6.20	6.30	6.33
New Zealand	16.75	12.10	15.25	22.75	25.00	23.50	23.20	24.00	25.30	n.a.	n.a.
South Africa	16.26	18.12	22.78	24.12	23.50	22.09	19.35	17.35	17.80	16.50	15.25
Chile	55.90	20.68	20.68	30.47	27.86	38.93	32.85	n.a.	n.a.	n.a.	n.a.
Hong Kong	10.13	12.84	6.26	7.64	8.28	7.35	6.96	7.00	6.11	5.41	6.57
Indonesia	18.50	19.50	19.00	20.50	22.00	19.00	18.00	17.50	15.50	15.00	15.00
Korea	8.00	8.00	4.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.50	9.80	10.30	9.30	10.01	9.50	12.00	7.75	7.00	8.50	7.50
Philippines	15.88	15.61	33.21	36.75	24.13	23.42	26.77	24.90	21.25	20.48	n.a.
Singapore	8.69	8.44	7.00	6.44	6.06	5.31	5.25	5.31	5.13	4.56	6.38
Taiwan	9.94	7.65	8.07	8.14	7.76	6.45	6.98	6.47	6.79	8.33	6.81
Thailand	12.25	16.00	12.00	17.75	16.50	16.00	14.50	13.00	12.00	12.00	12.00

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	8.25	9.70	8.35	8.25	8.80	8.25	7.50	7.57	7.95	7.88	7.80
Canada	8.85	9.82	10.00	11.75	10.50	10.15	9.75	9.65	9.20	9.10	8.90
Austria	6.25	6.50	7.50	6.88	6.88	6.88	6.50	6.50	6.38	5.75	5.25
Belgium	10.25	11.25	10.63	10.87	10.25	9.50	9.00	8.75	9.50	9.31	9.13
Denmark	9.00	8.00	8.00	6.00	6.00	6.00	6.00	6.00	5.00	5.00	7.00
Finland	4.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
France	8.24	7.86	7.04	6.80	6.50	6.62	6.67	6.69	n.a.	6.49	n.a.
Germany	6.00	5.80	5.25	5.25	5.75	5.45	5.30	5.15	4.45	4.25	4.25
Ireland	13.25	11.75	14.00	14.25	13.50	12.00	11.75	11.25	10.00	10.00	9.50
Italy	13.25	13.25	11.64	11.20	10.46	10.46	10.28	10.28	10.28	10.28	n.a.
Netherlands	5.50	6.13	5.63	5.50	5.87	5.87	5.87	5.87	5.87	5.87	5.87
Norway	11.50	12.75	12.18	11.90	12.75	12.75	12.40	12.25	12.25	12.00	12.00
Portugal	18.00	21.90	20.50	27.00	27.00	27.00	27.00	27.00	27.00	24.50	n.a.
Spain	18.54	12.62	11.64	11.32	10.61	10.61	10.83	10.55	n.a.	n.a.	n.a.
Sweden	12.13	11.70	11.45	11.50	10.80	10.77	10.13	10.57	14.95	14.61	14.90
Switzerland	7.00	5.50	5.50	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
United Kingdom	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Australia	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Japan	7.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
New Zealand	10.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
South Africa	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Argentina*	8.00	14.00	18.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Brazil	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00
Chile	47.00	20.17	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Hong-Kong	7.50	6.50	7.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Korea	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Malaysia	8.40	7.75	8.15	8.15	8.15	8.15	8.15	8.15	8.15	8.15	8.15
Mexico	12.24	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15
Philippines	14.15	14.56	14.56	14.56	14.56	14.56	14.56	14.56	14.56	14.56	14.56
Singapore	8.25	7.44	8.15	8.15	8.15	8.15	8.15	8.15	8.15	8.15	8.15
Taiwan	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

*Percent per month

Domestic government bond yields

long-term issues at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	10.61	12.00	11.01	12.00	11.02	11.04	10.71	10.62	10.91	10.63	10.67
Canada	11.69	12.02	11.98	12.30	11.93	11.95	10.76	10.66	10.91	10.79	10.96
Austria	8.61	8.52	8.54	8.02	8.96	8.96	8.61	7.87	7.77	7.58	7.34
Belgium	12.86	11.88	11.58	11.58	11.58	11.43	10.78	10.34	10.50	10.59	10.42
Denmark	20.14	12.96	14.80	13.54	13.33	12.42	12.26	12.16	10.76	10.72	11.23
Finland	10.84	11.75	10.72	10.81	11.75	10.34	10.45	10.46	10.48	10.42	10.35
France	10.40	10.68	12.70	12.20	12.27	11.98	11.72	12.12	11.87	11.96	11.97
Germany	7.90	8.38	7.11	7.31	7.44	7.30	7.10	7.02	6.88	6.52	6.55
Ireland	14.24	14.25	14.40	14.54	13.65	13.08	13.17	12.71	11.20	11.74	11.92
Italy	18.50	17.89	14.50	13.25	12.48	13.63	13.85	13.87	14.08	14.04	13.73
Netherlands	8.15	8.88	7.75	7.93	8.06	7.73	7.58	7.39	7.23	6.92	6.87
Norway	13.38	12.50	12.30	12.00	12.38	12.38	12.38	12.70	12.70	12.70	12.70
Portugal	16.61	22.11	22.23	22.23	22.23	22.23	22.23	22.23	22.23	n.a.	n.a.
Spain	13.92	17.25	13.94	13.44	13.49	13.41	13.56	13.79	14.48	14.37	n.a.
Sweden	13.01	12.30	12.04	13.21	12.93	13.42	13.70	13.48	12.88	13.22	13.54
Switzerland	4.23	4.53	4.80	4.86	4.89	4.75	4.74	4.78	4.80	4.89	4.71
United Kingdom	10.62	9.94	10.25	10.56	10.34	10.42	10.51	10.45	10.16	10.22	10.15
Australia	13.00	13.85	13.40	13.70	13.85	14.05	13.70	13.50	13.50	13.95	n.a.
Japan	7.96	7.45	6.36	7.19	6.97	6.85	6.60	6.53	6.38	6.46	6.36
New Zealand	12.84	10.50	16.90	17.35	17.50	17.95	19.64	17.33	17.86	17.80	n.a.
South Africa	11.31	13.84	16.55	17.85	16.85	16.40	15.85	15.15	15.90	16.20	16.65
Philippines	13.64	14.47	18.54	24.20	13.69	12.75	n.a.	12.00	13.29	n.a.	n.a.
Venezuela	15.00	13.50	14.00	13.50	13.50	12.50	12.50	12.50	12.00	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	11.50	11.50	10.75	10.50	10.50	10.50	10.00	9.50	9.50	9.50	9.50
Canada	12.00	11.00	11.25	11.50	11.75	10.75	10.50	10.50	10.50	10.25	10.25
Australia	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.50	13.75	14.00	14.00	14.00	13.50	12.50	12.00	12.00	12.50	12.00
Denmark	14.00	10.00	10.50	10.50	11.00	10.50	10.50	10.50	9.50	9.50	8.50
Finland	8.25	10.15	10.15	10.30	10.35	10.35	10.37	10.37	10.40	10.43	n.a.
France	12.25	12.25	12.25	11.50	11.50	11.50	11.25	11.25	10.85	10.85	10.85
Germany	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.25	7.25
Ireland	12.50	13.75	15.75	17.75	15.75	14.50	14.50	14.00	13.25	13.50	12.50
Italy	25.75	18.75	19.00	17.00	17.00	17.00	17.00	17.00	17.00	16.00	n.a.
Netherlands	6.25	7.00	6.25	7.75	7.50	7.13	7.75	7.75	7.25	6.25	6.25
Norway	14.50	13.50	15.00	12.85	12.50	12.50	12.90	12.70	12.90	13.10	12.70
Portugal	25.50	30.00	29.00	25.00	25.00	25.00	25.00	25.00	25.00	26.00	n.a.
Spain	19.00	20.82	13.88	13.71	13.57	13.75	13.76	14.55	n.a.	n.a.	n.a.
Sweden	18.00	13.50	14.50	14.50	14.50	14.50	15.25	15.25	15.25	15.25	15.25
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	10.50	9.00	9.50	14.00	13.00	12.50	12.50	12.50	11.50	11.50	11.50
Australia	15.00	12.75	13.50	14.75	16.00	16.50	16.75	17.75	17.50	17.75	18.25
Japan	6.25	5.85	5.70	5.70	5.70	5.70	5.69	5.69	5.69	5.78	5.70
New Zealand	13.00	11.00	14.00	15.00	17.00	n.a.	25.00	25.00	24.00	n.a.	n.a.
South Africa	18.00	20.00	24.00	25.00	25.00	25.00	23.00	22.00	21.00	21.00	19.50
Argentina*	9.00	15.50	32.35	23.84	26.71	32.47	37.01	8.50	8.50	9.00	5.75
Brazil	23.81	24.00	31.00	28.82	30.95	28.00	25.50	25.00	24.56	n.a.	n.a.
Chile	64.11	30.90	60.82	47.54	51.00	51.16	46.15	47.28	51.47	n.a.	35.53
Hong Kong	10.50	13.50	11.00	10.00	9.50	9.50	8.50	8.00	8.00	7.00	7.00
Indonesia	22.00	19.75	23.50	22.50	23.50	23.00	22.00	21.50	20.75	20.25	19.50
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.50	11.00	12.00	12.00	12.00	12.00	12.00	11.00	11.00	11.00	11.00
Mexico	48.12	56.44	47.54	47.32	49.38	51.93	53.76	54.92	57.00	59.06	60.98
Philippines	18.00	16.00	44.00	32.00	34.00	34.00	32.00	32.00	27.00	23.00	n.a.
Singapore	8.33	8.98	9.48	9.03	9.03	8.73	8.48	8.28	8.03	7.28	7.20
Taiwan	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.75
Thailand	16.00	16.00	16.50	16.50	17.00	17.00	16.50	16.50	16.50	15.50	15.50
Venezuela	17.00	16.00	18.00	15.00	15.00	15.00	14.00	14.00	14.00	14.00	14.00

*Percent per month

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	11.75	12.63	12.25	13.00	12.50	12.32	11.25	11.25	11.65	11.38	11.50
Canada	12.74	12.81	12.42	12.85	12.46	12.24	11.34	11.27	11.62	n.a.	n.a.
France	15.31	14.35	12.94	12.55	12.54	12.40	12.20	12.19	13.06	12.17	12.36
Germany	8.20	8.30	7.20	7.20	7.30	7.30	7.20	7.10	7.10	6.90	6.80
Netherlands	7.80	8.51	7.61	8.00	8.22	7.87	7.62	7.41	7.28	7.09	n.a.
Norway	14.13	13.29	12.73	12.73	12.25	13.25	13.25	13.50	13.50	13.50	13.50
Spain	17.10	19.64	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	13.37	12.21	12.03	12.67	13.31	13.19	13.80	13.75	13.25	13.25	13.50
Switzerland	5.80	4.02	5.09	5.16	5.24	5.24	5.18	5.15	5.09	5.06	5.02
United Kingdom	12.34	11.57	11.63	11.38	11.55	11.36	11.61	11.54	11.22	11.22	11.17
Japan	7.55	7.09	6.21	6.98	6.93	6.82	6.70	6.63	6.55	6.46	6.36
Korea	18.00	14.20	13.00	14.70	14.70	14.60	14.70	14.30	14.00	13.90	13.80
Venezuela	18.00	16.00	18.00	18.00	18.00	17.00	17.00	17.00	17.00	17.00	17.00

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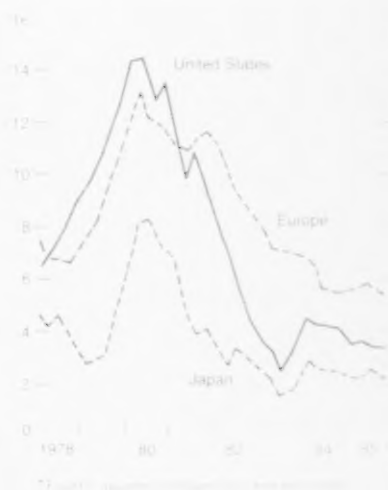
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Chart 1
Consumer prices
percent change over previous year



Countering world deflation

Five years ago, price disinflation, let alone outright "deflation," had virtually vanished from the lexicon of economists and policymakers. Today, following the remarkable and still-continuing decline of inflation in industrial countries (see Chart 1), those seemingly archaic terms are taking on new life. Lenders and borrowers — farmers, commodity producers, manufacturers, and sovereign governments — are seeking to fathom whether present experience is a mere interlude preceding the return of 1970s-style inflation or the beginning of a new era of low inflation.

Although the verdict can hardly be definitive at this stage, the odds increasingly favor the low inflation view. First, the taut monetary policies that are manifest in high real interest rates, together with the fiscal rigor still being practiced by a number of the major countries, have caused economic growth to average well below potential since the second oil shock. Sizable "output gaps" have opened up. They will not be closed — indeed, they may not even shrink — during the next several years if policymakers persist with their present objectives for moderate growth. The inflationary pressures of excess demand impinging

on limited capacity are simply not a reality today in most sectors of the world economy.

Second, there is widespread excess capacity in primary commodities — oil, metals, or food and other agricultural products. Significant real increases in commodity prices will not occur without profound supply shocks or stronger and more sustained world economic expansion than present policies are likely to permit. Should the dollar decline sharply further, commodity prices would likely rise somewhat in nominal dollar terms, while falling in terms of other currencies. On balance, however, that would not be inflationary for the world at large.

Third, cost-push forces for inflation seem to be in abeyance. There are signs of structural moderation in wage dynamics, notably in the United States. In Europe, wage moderation is being enforced primarily by record high unemployment. In Japan, the unique labor compensation system continues to militate against inflationary wage behavior. In addition, throughout the industrial world, but particularly in the United States, low-wage competition from the ever more sophisticated exports of newly industrializing countries (NICs) — as well as Japan itself —

Table 1

Dollar exchange rates

units per dollar, except as noted

	Nov. 13, 1985	Percent change in dollar rate from:		
		1985 base Feb. 25, '85	Pre-G-5 Sep. 20, '85	1984 ave. 1976
Nominal effective dollar	117.51	-18.2	-6.6	-4.6
Real effective dollar	111.3*	-18.2	-2.8	-6.7
Japanese yen	234.6	-50.3	15.0	-14.1
German mark	2.03	-24.8	-8.1	-9.3
French franc	7.96	-24.5	-8.2	-8.9
British pound**	1.42	-25.8	-3.8	-6.2
Italian lira	1750	-18.8	-7.6	-0.4
Canadian dollar**	1.0725	-1.6	-2.0	-6.1

*1980=100.

**U.S. dollars per unit.

is helping to compel new realism in wage demands.

To be sure, inflation is never dead, but only dormant. In fact, it continues of real concern in Italy, where the actual rate only recently has come down and expectations remain fragile; in Britain, where wage behavior is famously obdurate; and in many developing countries where too often inflation remains the accepted way of life. There even are residual risks of inflation's revival in the United States: interpreting the money supply figures is no easy matter amid ongoing structural change in the financial system. However, contrary to the confident assertions of some monetarists about the inflationary implications of fast M1 growth, the link between inflation and money supply is by no means automatic; neither is the link with the exchange rate. Besides, although the dollar has come down a trade-weighted 17% from its peak last February, that peak was a short-lived surge; the dollar today remains far above its average level of the early 1980s (see Table 1).

More than inflation, the big worry today is that world economic growth in the years ahead will fail to match even this year's inadequate performance. Growth in the major industrial countries has fallen to about

2.7%, compared with 5% in 1984; several of Asia's erstwhile star performers are stumbling badly; and Latin America remains in considerable distress. Global growth prospects are little better for the years ahead, not least because the United States is moving toward contractionary budget policy, as a means not only to counter inflation but also to contain its external trade deficit and internal forces for trade protection. Averting the risks to world economic growth is the underlying objective of the twin initiatives launched this fall by U.S. Treasury Secretary Baker: activation of the G-5 forum of finance ministers and central bank governors of the leading industrial countries, with a view to securing a lower dollar and more expansionary policies in Japan and Europe; and the plan unveiled at the IMF-World Bank meetings in Seoul to encourage more growth-oriented structural policies in debt-troubled developing countries, with the support of a moderate step-up in financing by commercial banks and multilateral development banks. These initiatives are welcome and well timed. Their implementation, however, raises many questions and their ultimate success is by no means assured. Still, it is encouraging to see economic growth more prominently on the international policy agenda.

The potential for faster economic growth

Since the second oil shock, real GNP growth in the industrial countries has averaged 2.2% per annum. During the 1970s it averaged 3.6%, and in the golden decade of the 1960s as much as 5.7% (see Table 2). The drastic slowdown in actual economic growth during the 1980s so far is often portrayed as a fundamental fact of life reflecting the maturation — or even senility — of

Table 2

Real GNP growth

average percent per annum

	1960-69	1970-79	1980-85
Seven industrial countries	5.7	3.6	2.2
United States	4.2	3.1	2.1
Japan	11.6	5.5	4.0
Germany	6.6	3.1	1.2
France	5.8	4.1	1.0
United Kingdom	5.1	2.4	1.1
Italy	6.3	3.3	1.4
Canada	5.2	4.3	1.8

industrial societies, exhaustion of technological opportunities, and sclerosis of market mechanisms. This perception, which enjoys much popular and official currency in Europe — and, to a lesser extent, Japan — rejects the notion that governments can do much to accelerate economic growth at least over the short term. Yet accelerated growth is the very essence of the Baker initiatives. However, there is another interpretation of the decline in actual economic growth, namely that for a variety of reasons industrial countries are performing below the level of output potentially producible from existing endowments of labor, capital, natural resources, and technology. Thus, they are suffering "output gaps" that may be both large and susceptible to policy influence.

To appraise the size of these gaps, and whether they are narrowing or widening, it is necessary to estimate potential output. Its growth may be defined as the sum of the underlying growth trend in labor productivity and that of labor input. The latter reflects trends in working hours, labor force participation, and the population of working age. The mere listing of these components suggests that potential growth must have exceeded the actual growth of output these past five years. Still, although demography provides fairly solid measures of the working age population, other components in the potential growth calculation are hard to pin down. Few countries collect comprehensive data on working hours; female and older worker participation in the labor force is influenced by economic and social factors that are imperfectly understood; and productivity projections are sensitive to assumptions about human and physical capital investment, as well as depreciation.

Accepting the difficulties, two approaches are in general use for es-

timation of potential output. The first assumes that potential grows at the observed rate of GNP growth from one peak of the business cycle to the next; for projection purposes, the most recent peak-to-peak measure is carried forward, perhaps with some judgmental adjustment. The second, more sophisticated, approach assesses the growth in both the quantity and quality of the economy's productive factors, such as labor and capital. Some observers, especially in Europe, reject the second approach not only for its greater complexity but also because it yields generally higher estimates of potential growth. They contend it ignores both the "rusting away" of part of the capital stock during the present extended period of underutilization and the long-term shift of competitive supply capability for many manufactures toward the NICs. However, the rust factor, while real, probably is not of overwhelming significance. Neither the structural decline of some older sectors nor the general increase in import penetration has prevented overall U.S. manufacturing output from rising 13% above its 1979 level — hardly a spectacular increase but far better than Europe's experience. Besides, the peak-to-peak gauge of potential output has its own weaknesses. The low estimates it provides for the 1980s derive from the slowdown of actual growth in the 1970s, a period of major supply shock and rampant inflation quite different from today's conditions. Moreover, failure to recognize the role of depressed demand these past five years renders many judgmentally adjusted estimates of potential growth unduly pessimistic.

By every estimate enormous output gaps prevail today in the major industrial countries (see Table 3). The gaps have jumped from very low levels in 1979 to levels that, outside North America, remain striking-

Table 3

Output gaps:
alternative estimates

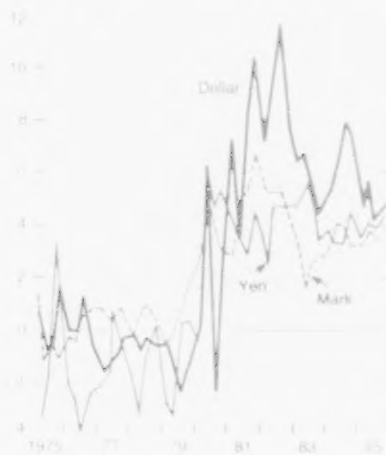
	Potential output: annual average growth 1967-85*	Output gap: Percent**	1979-1980	1985
United States	3.1	1.5	1.01	1.4
			(14.4)	(16.7)
Germany	4.5	2.8	1.8	3.6
			(40.7)	(80.0)
France	2.5	1.1	1.4	8.5
			(56.0)	(340.0)
United Kingdom	3.6	1.0	1.0	5.2
			(27.8)	(144.4)
Italy	3.5	1.0	1.0	2.4
			(28.6)	(68.6)
Canada	3.0	1.8	1.8	9.5
			(60.0)	(316.7)

*Source: "Measuring the Output Gap," Federal Reserve Bank of Dallas, 1984. Based on 1985 price level and 1985 output. Growth rate of 1985 output relative to 1985 price level.

**Source: "Measuring the Output Gap," Federal Reserve Bank of Dallas, 1984. Based on 1985 price level and 1985 output. Growth rate of 1985 output relative to 1985 price level.

Real interest rates

3-month Eurocurrency deposit rates
deflated by consumer prices**
in percent



**The inflation adjustment uses centered 12-month rates of change in consumer prices, including projections for 1985 when necessary.

ly high in relation to earlier postwar experience, despite the economic recovery. The estimates range from lows of about 5% of GNP in North America to over 13% in France and Germany. Only in the United States, Canada, and the United Kingdom have output gaps decreased unambiguously since 1982. By contrast, no matter which estimates of potential growth are used, output gaps in Germany, France, and Italy have widened since 1982, underlining the feeble nature of Europe's recovery. In Japan it is unclear whether the output gap has grown or declined since actual economic growth has run between the estimates of potential. Nonetheless, in all the major industrial countries, output gaps are well above their levels of the 1970s.

Macroeconomic restraint

The persistence of low or declining inflation well into the expansionary phase of the business cycle has been quite a surprise, especially in the United States, where the upswing has been much in line with previous cyclical experience. The continuing prevalence of excess capacity in the world economy provides the clearest explanation. Just as the inflationary surges of 1973 and 1979 were in large part triggered by simultaneous demand pressures in each of the major industrial economies, the current disinflation is abetted by restrictive demand policies. In most major industrial countries both fiscal and monetary policies have been harnessed to the overriding aim of reducing inflation. Of course, U.S. strategy for noninflationary growth has taken a different tack, insofar as its expansionary fiscal stance has required that monetary policy spearhead the anti-inflationary fight.

Both in the United States and else-

where, growth rates in monetary aggregates have generally decelerated in the early 1980s, although in some cases financial deregulation and velocity shifts have obscured the underlying trends. The tightening of monetary policy stands out most clearly from the sharp rise in real interest rates (see Chart 2). The rise is commonly blamed on the quantum jump in the U.S. fiscal deficit. However, this is not a convincing or complete explanation. The underlying fiscal posture of industrial countries, taken as a group, has changed very little since 1979. Given the prevailing freedom of international capital movements, this implies no measurable fiscal pressure for the rise in real interest rates. Instead, the rise must be attributed in large measure to restrictive monetary policies — especially during 1981-82, and again for much of last year in the United States and Europe. Real rates have since come down significantly but remain uncomfortably high, in part because of unsettled inflation expectations.

On the fiscal side, the persistence of deficits, as conventionally measured, is still construed too automatically as lax and imprudent. However, fiscal policy is better assessed using "structural" balances, cyclically adjusted figures that estimate the budget outcome of prevailing spending and tax rules as if the economy were operating at its full potential output. Since 1981 the shift toward deficit in the U.S. general government structural balance has been the largest in U.S. peacetime experience. But opposite movements toward surplus by most of the other G-5 industrial countries have, in aggregate, almost precisely offset the U.S. swing (see Table 4). According to the higher estimates of growth potential, Germany, France, and the United Kingdom now are each in substantial structural surplus, exceeding 3% of GNP. Japan's

Table 4

Structural budget balances:^a alternative estimates

percent of potential output, derived from the alternative potential growth estimates shown in Table 3

	1984	1985	Change from 1984 to 1985 ^b
United States	1.4	0.0	-2.1
	(-4.2)	(-5.7)	(-1.5)
Japan	0.7	0.2	-0.5
	(-2.4)	(-3.9)	(-1.5)
Germany	0.7	0.4	-0.3
	(-0.6)	(-0.3)	(-0.3)
France	0.7	0.2	-0.5
	(-2.7)	(-3.2)	(-0.5)
United Kingdom	0.7	0.4	-0.3
	(-2.5)	(-3.0)	(-0.5)
Italy	0.7	0.2	-0.5
	(-2.5)	(-3.0)	(-0.5)
Canada	0.7	0.2	-0.5
	(-2.5)	(-3.0)	(-0.5)

^aGeneral government budget, excluding interest payments and social security contributions, and excluding the effects of the 1984 tax reform.

^bA positive number indicates a general fiscal surplus.

General government net debt percent of GNP



surplus is about half that size; Canada is barely in the black; Italy remains deeply in the red. On the lower estimates of potential, only Germany and the United Kingdom are in surplus. However, the *change* in the structural balance is more important than the *level* in describing the impact of fiscal policy; in Japan, Germany, and the United Kingdom, the swings toward surplus have been unprecedented by post-war standards.

Fiscal tightening has had several motivations besides helping to discipline inflation. Since 1980 governments have been attempting to lower high ratios of public spending to GNP, or at least to contain their expansion. It is argued, particularly in Europe, that reductions in public spending will increase confidence, reduce interest rates — especially insofar as deficits decline — and stimulate private domestic demand. In Japan, the authorities are less concerned about the overall spending at present than with the large increases in social security transfers anticipated during the next 15 to 25 years; they are therefore reducing deficits to make room for outlay pressure expected in the future. Few governments have had much success in actually cutting overall spending. Spending restraint, where achieved, has benefited by appeal to the simplest principle of prudent housekeeping: that deficits ate civil pay. In many countries, this deficit nostrum has come, in practice, to supersede the original spending cuts objective, resulting in increased tax burdens that debilitate the private sector.

Officials also are concerned with potential deficit financing problems. Their *actual* budget positions remain in deficit, whatever the *structural* positions; moreover, public debt has risen in relation to GNP (see Chart 3). Many governments take the view that increases in debt interest pay-

ments as a proportion of GNP have to be covered by reductions in non-interest expenditures. The preference of Europe and Japan for continued fiscal restraint reflects attitudes about sustainable debt positions and the rate at which such positions must be restored. What may constitute an optimum debt ratio from an economic perspective is far from clear. Still, outside the United States, governments uniformly regard the present ratios as too high. For example, although the current Japanese and German ratios are not high by international comparison, they arouse anxiety because they are roughly 30 percentage points above their net creditor positions of the early 1970s.

Current macropolicy and growth trends

Notwithstanding sizable output gaps and, outside the United States, the already large swings toward structural budget surpluses, governments in general — with Britain the sole likely exception — are in no mood to ease up significantly on tight fiscal policies.

Moreover, it now appears that the United States will climb on the bandwagon of fiscal restraint. Opinion has snowballed this year that the federal deficit is too large, thanks in part to its perceived connection with the U.S. trade deficit. Last summer's Concurrent Budget Resolution, according to the Congressional Budget Office assessment, will shrink the federal deficit from 5.5% of GNP this past fiscal year to 3% in FY 1988. The pitfalls of the appropriations process suggest that achievement will fall short of intention. Thus, the reduction in the U.S. structural deficit, on a general government basis, may run considerably less than 2% of GNP over a three-year period. The impasse concerning the Gramm-Rudman Senate amendment

Table 5

Real GNP growth
 percent per annum

	1984	1985	1986
Industrial countries	4.3	2.7	2.9
United States	3.9	2.4	2.5
Japan	2.9	4.0	3.5
Germany	3.5	2.0	3.7
France	1.9	1.3	2.0
United Kingdom	2.4	3.5	3.5
Italy	2.5	2.4	2.9
Canada	3.3	1.9	3.0
Developing countries	4.6	11.6	3.2
Latin America	1.5	2.8	3.4
Asia	5.9	2.8	7.6

further complicates the outlook.

Fiscal policies of other G-5 governments remain restrictive for the most part; their several motivations for restraint remain powerful. Japan retains its commitment to eliminate deficit financing, according to its particular definition of the deficit. In Germany a small tax cut is scheduled for 1986, but little more than is needed to offset just one year's fiscal drag. Despite widespread calls for the moving forward of a second tax cut presently slated for 1988, German officials so far are refusing to budge. Meanwhile, French austerity continues. Only Britain seems likely to take early advantage of the peculiarities of its accounting treatment of privatization sales of public-sector assets to enable sizable tax cuts and effective relaxation of fiscal restraint.

As for monetary policy, the major central banks, having won significant — albeit costly — reductions in inflation, are reluctant to permit its reacceleration. This characterization may appear questionable in the case of the United States, in view of the pickup of M1 money growth. However, this appears principally related to the decline in M1's velocity of circulation, partly consequent upon the fall in interest rates; the broader aggregates have been showing relatively moderate growth. Waning U.S. inflationary expectations appear to be inducing a shift from physical to financial assets. In any event, throughout this period of declining inflation since 1980 growth in the U.S. narrow money stock has fluctuated both widely and erratically. Thus, the recent behavior of the monetary aggregates does not evidence basic relaxation of Federal Reserve policy.

Monetary policies elsewhere are unlikely to provide much stimulus, spur. The September G-5 meeting left indications that interest rates in Japan and Europe would not be

driven lower for fear of impeding or halting the decline of the dollar. In fact, Japan has pushed rates higher because the yen's appreciation to date is nowhere near sufficient to accomplish speedy correction of Japan's trade surplus. For the indefinite future, Japanese monetary policy is likely to remain constrained by large current account surpluses and continuing pressure from other governments for a stronger yen. In Germany, amid record unemployment, low inflation, and high real interest rates, the Bundesbank's willingness to reduce, and also hit, this year's monetary target, attests to its enduring commitment to price stability. Other members of the European Monetary System can be expected to parallel German monetary policy for exchange rate reasons, if with less fervor. Even Britain, where errant monetary aggregates now play little policy role, effectively takes its monetary cue from Germany, insofar as the sterling-mark relationship has become a principal focus of the U.K. authorities.

Altogether, given current and expected macroeconomic policies, real output growth in the major industrial economies may be no more than 2.9% on average in 1986, and quite possibly less. Thus, there would be scant improvement after this year's slowdown from the roughly 5% pace achieved in 1984 (see Table 5). The U.S. economy has picked up somewhat from the stagnation experienced during the first half of 1985. Still, it is hardly running at full throttle and, increasingly, will have to cope with some degree of fiscal restraint. This year's slowdown outside the United States, especially in Asia, has a number of causes, but has certainly been aggravated by the slackening growth in U.S. imports (see Table 6). Even if slightly faster U.S. GNP growth comes to pass in 1986, the dollar's depreciation during 1985 will cause

Table 6

U.S. imports

 percent change from 1984 to 1985
 or annual totals

	% ch. 1984	1985 total
Industrial countries	32.1	8.6
Japan	18.9	18.2
Germany	34.0	10.3
France	36.2	12.5
United Kingdom	16.8	8.6
Italy	46.5	15.4
Canada	27.4	10.3
Developing countries	11.4	1.1
Latin America	15.7	0.4
Asia	27.7	1.4

Table 7

Oil demand and supply millions of barrels per day

	1979	1983	1986
Consumption			
Industrial countries	31.5	34.5	37.7
Developing States	10.8	15.7	18.5
Europe	12.8	15.5	17.2
Japan	7.5	8.8	9.4
Developing countries	5.5	10.5	14.5
Black Africa	1.5	3.5	5.5
Supply			
Non-OPEC countries	25.5	28.5	30.5
United States	15.5	14.5	14.5
North Sea	2.5	3.5	4.5
Mexico	1.5	1.5	1.5
Other	0.5	0.5	0.5
Continental shelf exports to the West	0.5	1.5	2.5
OPEC production	10.5	16.5	22.5

U.S. import growth to ebb further.

Partly as a result, growth is unlikely to pick up in Western Europe as a whole next year. Germany's industrial output weakened sharply this past summer. Some German officials continue to look for 1986 GNP growth of 4%. However, their optimism seems misplaced, with untimely reliance on questionable real wealth effects on consumption and an exaggerated view of the employment-boosting benefits of lower interest rates. As noted earlier, the 1986 tax cut will do little more than arrest the contractionary fiscal trend. Growth in France remains hindered by the fiscal posture. In Britain, the projected deterioration in economic activity reflects both the expansion of credit and incentives and the absence of any further rise from coal mining following the strike that ended last summer. However, privatization plans may permit a fiscal boost at least in the margin. And in Japan, there is little sign of any significant increase in domestic demand to replace the falling stimulus from exports.

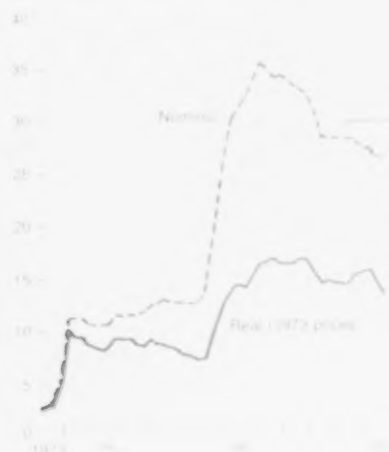
Some small pickup in industrial country growth is possible in the late 1980s, in part associated with the U.S. recovery cycle. With the dollar moving down, the U.S. trade deficit should be less of a drag on U.S. aggregate growth, fostering a rebound from the present deepening pessimism. Over the long run, the U.S. recovery will be further dependent on an easing of monetary policy, leading to a more expansionary monetary policy. However, in view of prevailing macroeconomic policies in Japan and Europe, there is not much cause for optimism that GNP growth is expanding in any of the 1987 oil period or beyond for the industrial countries as a group. Most likely, sustained growth will average, perhaps, only a growth rate below the increase in potential output.

Depressed commodity markets

Profound changes in commodity markets, which did much to lower inflation in the early 1980s, are another important factor behind the low inflation outlook. The changes are most evident in the oil market. Despite the economic recovery, conservation and substitution fostered by the oil price increases of the 1970s are continuing to weaken world oil demand. Demand this year in industrial countries is off 2% from the 1984 level and is down almost 20% from the 1979 peak level (see Table 7). Developing countries' share of consumption once was deemed to be rising inexorably fast, but now minimal demand growth, particularly in Latin America. The 25% decline in the average world oil price since the 1981 peak does not change the picture fundamentally, since oil prices still are high in historical terms relative to world manufactures prices (see Chart 4) and additional sources of oil supply have come on stream from non-OPEC producers. Excess capacity and financial pressures on budgets and payments balances are compelling forces for increased output, not only from Nigeria and other heavily indebted producers but also from Saudi Arabia. Consequently, despite their recent timing, oil prices will likely be borne under downward pressure for the next few years. The possibility of a sharp oil price rise to the low \$20s cannot be dismissed.

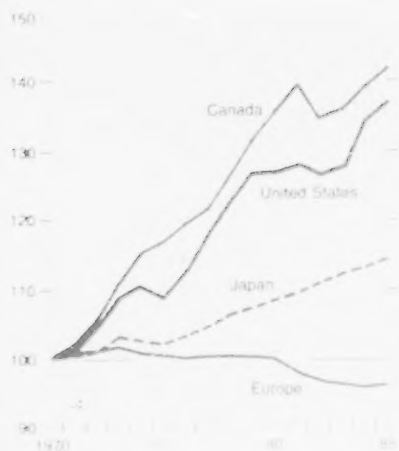
Non-oil commodity prices, especially for metals and fibers, likewise have been under downward market pressure throughout the 1980s (see Chart 5), making most recently in the London of the International Tin Council and the London Metal Exchange. As yet, this year's fall in the price has brought no discernible economic relief. For several reasons, prices have been weak not just in

Chart 4
Average world oil price
dollars per barrel



ening previous discrimination against agriculture. Indeed, three of the five most populous nations — China, India, and Indonesia — have recently achieved food self-sufficiency. In the industrial countries, especially in Europe, income support through price-fixing and subsidy has resulted in pervasive and growing overproduction at crippling budgetary costs; fiscal pressures mean that, sooner or later, prices will have to be cut.

Chart 6

Industrial-country employment
1970 = 100

employment — in Europe unit cost containment has relied less on reduced wage gains than on labor shedding and elimination of unviable plant under the pressure of depressed demand.

Much of the difference stems from the greater competitiveness and flexibility of the U.S. labor market and its institutions. Since the end of the recession in 1982, nominal hourly wage gains in the U.S. private sector as a whole have averaged 3.7% per annum, compared with 7.4% over the inflationary decade of the 1970s. In contrast with previous experience, nominal wage gains have shown little, if any, tendency to accelerate during the course of the present cyclical recovery. Moreover, average real wage gains have been negligible in this recovery, maintaining their stagnation of the last ten or more years.

Increased foreign competition has been the key factor. This is not attributable solely to the higher dollar. The long-run shift of comparative advantage in manufacturing toward the NICs helped them penetrate the U.S. domestic market even before the dollar's rise. Although dollar appreciation helped these countries consolidate their presence in the U.S. market, not even a steep decline in the dollar would be likely to spur their total withdrawal. Besides, U.S. manufacturers are keenly aware of the cost savings obtainable through contracting for production in low-wage areas abroad. The second important structural force for U.S. wage moderation has been deregulation; for example, in the airline and trucking sectors increased competition has stiffened employer resistance to higher wages. A third significant factor has been union recognition that the excessive wage increases negotiated in the 1970s rendered their members uncompetitive for the 1980s. Wage freezes or pay cuts have since grown mightily

in importance; their direct effects have clipped at least 0.5% per annum from the overall U.S. inflation rate — even more when account is taken of their impact on other wage deals.*

Current trends in the nonwage aspects of union settlements, together with the decline of union membership, point toward enduring improvement in the behavior of unit labor costs: work rules impairing the competitiveness of unionized firms are being relaxed; the growing practice of profit sharing ties employee compensation more sensitively to company profitability; and union emphasis on job security helps workers identify their economic well-being more clearly with that of the firm. In sum, these nonwage trends are bringing some attractive features of the Japanese system to the U.S. workplace.

In Europe, the slowing of unit labor costs has come about more through the stepped-up productivity of workers retaining jobs than through lasting and radical moderation of their wage behavior. European labor markets remain riddled with inflexibilities. These explain at least a portion of the poor European employment record compared with that of North America and Japan (see Chart 6). The rigidities that took hold in the late 1960s have bloated not only real wages but also nonwage hiring costs. As the 1970s progressed, layoffs also became increasingly expensive — in some instances with no relief provided even through bankruptcy. Such rigidities — along with innumerable regulatory fetters, declining productivity growth, and increased mismatch of job requirements with worker skills — have greatly boosted Europe's "natural" rates of unemployment, the

*Fig. 34-30-00000, and Robert S. Goy, "Union Settlements and Aggregate Wage Behavior in the 1980s," *Federal Reserve Bulletin*, December, 1984.

Table 9

Natural rates of unemployment
percent of labor force

	1966-70	1981-83
Germany	1.2	5.3
France	2.2	6.9
United Kingdom	2.2	9.5
Italy	4.6	11.1

Source: "Europe: The Case for Unemployment Security," R. Layard, in *OECD Economic Policy Studies* (Paris), No. 3, May 1984.

rates consistent with stable inflation (see Table 9). Since the second oil shock, these natural rates may have begun to decline: rigidities in Europe have shown some tendency to ease, for example, through the reduction and limitation of some unemployment benefits. In any event, natural rates in the largest four EC economies are well below current unemployment rates (see Table 10) imparting downward pressure on nominal wages and inflation generally.

Nominal wages in Europe certainly have slowed as inflation has come down. Modest structural improvements have been achieved in wage indexation practices in most EC countries. In Italy, for example, union concessions have helped reduce the degree of wage indexation to less than 50%, compared with about 100% in 1976-77. In France, indexation now works less to provide wage compensation for past price increases than for the lower increases anticipated in the future. However, not until 1982 did real wages cease to rise in Europe's manufacturing sector—quite a contrast with the near stagnation of real wages in the United States these past ten years. In general, Europe does not display significantly greater wage moderation than its prevailing high unemployment would be expected to engender.

In Japan, wage gains also have decelerated, to an average 4.5% per annum these past five years in nominal terms, compared with 14% during the 1970s. Real wage gains in Japan have averaged 1.3% per annum since the second oil shock, considerably below the 5.7% pace of the 1970s and also below the 4.7% growth rate in productivity since 1980. Partly responsible has been a compensation system that emphasizes bonus payments tied to the performance of the firm. Less well known, outside Japan, is the

fact that the fabled "lifetime" workers account for less than half the Japanese labor force: disguised unemployment, together with a large pool of temporary workers—often females passing in and out of the labor force without ever being recorded as unemployed—helps keep Japanese wage growth relatively low.

Quiescent wage behavior for some years to come, in combination with excess capacity, tight macroeconomic policies, and weak commodity prices, forms the basic case for the outlook for a low inflation world (see Table 11). Up to a point, the inflation outcome in individual countries, including the United States, will naturally depend on exchange market developments. However, for the major industrial economies as a whole, overall price inflation could well continue to recede.

The twin Baker initiatives

The combination of forces pointing to low world inflation also points to low economic growth. That would mean scant progress for industrial countries in working down their unemployment rolls and still greater difficulty in resisting the destructive spread of protectionism in international trade. There would be little hope for heavily indebted developing countries to boost the per capita incomes of their people.

Policymakers should hardly stand idle before this troubling prospect. What is needed is a cautious swing away from the inflation-fighting preoccupations of the last several years—in favor of expansionary policies for the future. Admittedly, expansionary policies carry some inflationary risk. However, U.S. inflation forecasts based solely on fast money growth have been woefully in error since 1983 (see Chart 7). Financial innovation and falling in-

Table 10

Actual rates of unemployment
percent of labor force

	Average 1979	Average 1980	1981 (Jan.)
United States	5.6	7.3	7.1
Japan	2.1	2.3	2.3*
Germany	5.2	7.7	8.0
France	5.8	9.5	10.0
United Kingdom	6.8	11.5	12.4
Italy	11.8	13.3	13.1
Canada	7.4	11.0	11.2

*Jan. 1982.

Table 11

Consumer prices
percent change, Dec./Dec.

	1984	1985	1986
Seven industrial countries	3.1	3.0	2.2
United States	4.0	3.0	2.4
Japan	2.8	2.3	1.8
Germany	1.8	1.9	0.8
France	5.6	6.0	3.7
United Kingdom	4.6	5.5	4.1
Italy	9.4	8.5	6.5
Canada	3.8	3.8	3.5

Chart 2

U.S. consumer prices
and money supply
percent change over previous year



interest rates appear to be playing havoc with velocity. While velocity may have stable determinants in monetarist thinking, the relationship is fickle in practice. Besides, if U.S. inflation were to pick up, and the hard-won gains on the price front begin to evaporate, the Federal Reserve could quickly correct course. Even were that to fail, higher U.S. inflation would be unlikely to spread to other countries in view of their excess capacity and tight policies, not to mention the depreciation of the dollar that probably would ensue.

Accepting the risks, U.S. Treasury Secretary Baker has launched two significant initiatives to bolster global economic growth. The first, impelled by broad domestic pressure to narrow the U.S. trade deficit and with a view to recovering Administration leadership on trade issues, opened with a session of the G-5 forum in New York. It concluded that exchange markets were failing to respond appropriately to shifts in economic fundamentals. Subsequently the major central banks, notably the Bank of Japan, have undertaken active and coordinated intervention. This has contributed significantly to the dollar's decline since the September meeting; it is down a full 15% against the yen — the prime Administration target — and over 6% against currencies of industrial countries on average. Most of the dollar's decline to date — and even some moderate further declines were this to occur — should be comfortably absorbed by shrinkage of the oversize profit margins enjoyed by foreign exporters to the United States. To be sure, beyond some point those margins would be less able to take the strain. However, in contrast with the very different environment of the 1970s, the impact on the U.S. price level today would be attenuated by the still-substantial slack in U.S. and foreign markets; the moderation of U.S. wage be-

havior, and the structural weakness of commodity markets.

Apart from its exchange market impact, the G-5 communique represented only a token step forward. It counseled resistance to protectionism; and it reaffirmed faith in existing government policies and intentions, in line with the long-standing appeal for policy convergence. But the communique advanced no new proposals for substantive policy changes that would better the near-term economic outlook. Thus, the convergence approach still has not been superseded by the more urgent priority for macroeconomic consistency.

As U.S. budget deficit reduction proceeds the most serious danger confronting the world economy today is that fiscal policies of the other G-5 members will remain unchanged or contractionary while monetary policies remain resolutely countinflationary. That would be a sure formula for global recession. Unfortunately, governments in Japan and Europe remain adamantly opposed to expansionary fiscal policy. Notwithstanding the risk to their own economy's growth, the Japanese government appear willing to place upward pressure on the yen by tightening monetary policy, rather than compromise their existing fiscal commitments. In Europe, where political changes could well occur in several countries, it is by no means clear that significant movements in fiscal policy would result.

Thus, while the orderly decline of the dollar that followed the G-5 meeting is grounds for some satisfaction, this first Baker initiative requires follow-through to assure adequate economic growth. The time has come for Japan and Germany to reverse their fiscal course and, instead, aim for growth above their potential output trend for several years ahead. Although fiscal relaxation in Japan would not achieve a

major reduction in its trade and current account surpluses directly, it would act to strengthen the yen and thereby induce substantial narrowing of the surpluses indirectly. Germany's objectives for structural adjustment are unlikely to be fully or speedily realized without fiscal stimulus to engender an expansionary environment. Moreover, German stimulus is sorely needed for the sake of Europe's wider economic well-being. Assured of increased German demand for their exports, the British, French, and Italian authorities would have less need for worry about their current account positions; they would have greater freedom to tackle structural reforms and faster economic growth and, almost surely, would meet greater success.

Unless industrial countries espouse more consistent and positive fiscal policies, developing countries face a difficult future. Without stepped-up growth in Japan and Europe, LDC trade and current accounts would bear the brunt of reductions in the U.S. trade deficit achieved through U.S. budgetary action. The financial squeeze on LDCs would intensify further. In 1985, disappointing industrial-country growth, plus ever-increasing protectionism, already have meant setbacks for LDC exporters. From the debtors' perspective, the only good news in the low-growth, low-inflation outlook is that real interest rates should moderate as inflationary expectations continue to recede over the rest of the decade; the real 6-month Eurodollar rate could be cut in half relative to last year's 7%. However, that would be no great comfort to the debtors; LDC current accounts benefit twice as much by a one-percentage-point increase in the OECD growth rate as by a one-percentage-point decrease in nominal LIBOR.

The second Baker initiative, un-

veiled at the October IMF-World Bank meetings in Seoul, seeks to stimulate economic growth in LDCs by encouraging them to remove distortions and increase the role of the market in their economies, with increased financial support from both commercial banks and the multilateral institutions. The plan is well timed, sound in concept, and altogether constructive in objective. However, the plan will stand or fall by its implementation. Much of the banking community is reacting positively. The process already is well under way to marshal the \$20 billion of net new lending the commercial banks are called on to provide as their contribution. The funds would go to 15 debtor countries, mostly in Latin America, over a three-year period, implying annual growth in bank exposure of barely 2.5%. That would not significantly erode the progress that the banks are achieving in bringing their LDC credits into better balance with their expanding capital resources.

The Baker initiative further called on the multilateral development institutions, principally the World Bank and the Inter-American Development Bank, to undertake a parallel \$20 billion in net lending to the 15 countries in the same three-year period. That lending would be mostly in the form of quick-disbursing policy-based credits, requiring major reorientation of World Bank activity. Hitherto, the Bank has extended no more than 15% of its total credits in such form with the remainder reserved for its traditional, slow-moving project finance. The Baker proposal assigns the World Bank a central role in catalyzing additional private financing and debtor-country structural reform during this second phase of the debt strategy, analogous to the IMF's central role in the first. Thus, World Bank reorientation is critical to the Baker plan's success and must be pushed ahead with all

possible speed.

Unquestionably, the most challenging aspect of the Baker plan is the call for structural reforms in the borrowing countries. Effective reforms would have a market-oriented thrust, including measures to boost domestic savings through realistic interest rate policies and steps to modernize and open financial markets; the paring back of inefficient public-sector undertakings; and the release of private enterprise from the distorting influence of subsidies and the burden of price, wage, trade, and exchange controls. Progress in these directions is exceedingly slow and difficult. Nonetheless, it remains critical to a positive outcome.

Although this second Baker initiative is fairly specific in its demands on the commercial banks, the multilateral development institutions, and the debtor countries, it is somewhat nebulous concerning the role of the G-5 creditor governments. The plan acknowledges the importance of a constructive external environment for the successful resolution of LDC debt problems. However, it is silent concerning the future role and scale of directly extended official credit flows. Such financing, provided mainly in the form of export credits,

has met a significant portion of LDC credit needs in the past. Regrettably, some of the decisions of official credit agencies in recent years have been less than supportive of the general effort to resolve debt problems. This is one area in which amplification of the Baker plan is urgently needed.

Both Baker initiatives merit strong support. Although the G-5 initiative focuses on the industrial countries, while the Seoul proposal is geared to the needs of developing countries, the two initiatives complement and reinforce each other. Both industrial countries and LDCs need stronger economic growth — for their mutual benefit. LDC markets are of great importance to many exporters in the industrial countries; the latter therefore have a vital interest in restoring developing-country growth, even while recognizing that the necessary structural reforms cannot be implemented overnight. In the near term, the pressing urgency lies in securing greater consistency and a more expansionary thrust in industrial-country policies. Otherwise protectionism will run unchecked to the lasting detriment of world economic progress.

Statistical appendix

For key to data in tables
see pages 22 and 23.

Nominal effective exchange rates, 14
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Information herein is from sources
considered to be reliable but is furnished
without responsibility on the part of
Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average = 100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Netherlands	Belgium	Spain	Switzerland	Denmark	Norway	Sweden
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	104.8	99.4	98.8	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.5	104.0	77.4	110.5	93.9	97.8	84.3
1984																
November	125.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	128.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	130.4	95.3	110.0	88.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.8	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.8	82.3	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
June	130.8	93.2	112.2	74.2	84.4	106.8	83.0	90.4	103.6	89.9	103.0	76.3	107.6	94.3	95.8	83.8
July	130.1	93.5	112.1	75.4	85.2	107.1	81.4	93.6	103.8	89.0	103.5	75.5	110.2	94.5	95.7	83.6
August	128.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September	126.2	92.1	114.0	74.0	86.3	108.6	79.9	91.3	104.2	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.0	91.2	123.0	71.8	87.3	109.8	80.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
September 27	121.0	93.0	117.4	74.1	87.0	109.5	79.6	92.3	104.6	89.8	105.0	73.4	113.0	95.3	95.4	82.9
October 4	118.8	91.0	123.9	73.7	87.3	108.8	80.0	89.6	105.0	90.0	105.4	73.1	113.7	95.9	95.6	82.9
11	119.1	91.3	125.4	73.3	87.3	109.8	80.1	89.6	105.0	90.0	105.5	73.1	113.3	96.1	95.7	83.0
18	119.8	91.9	125.2	72.1	87.8	109.7	80.1	89.8	105.0	90.1	105.2	73.2	113.1	96.0	95.2	83.2
25	118.3	91.4	123.0	71.7	87.8	109.7	80.1	90.4	105.1	90.1	105.2	73.1	113.4	96.1	95.0	83.2
November 1	118.5	91.2	123.1	71.7	87.4	109.8	80.2	90.1	105.1	90.1	105.4	72.9	113.4	96.1	94.9	83.3
8	117.5	90.8	128.4	67.8	87.9	109.9	80.3	89.5	105.1	90.4	105.5	72.8	113.1	96.3	94.8	83.4

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average = 100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Netherlands	Belgium	Spain	Switzerland	Denmark	Norway	Sweden
1980	89.4	99.6	100.0	83.0	103.1	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.8	100.0	104.6	102.7	100.1	97.2	98.7	102.3	99.1	100.3	97.8	95.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.0	97.8	99.2	97.6	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	105.1	96.6	100.0	96.9	99.3	100.1	95.0	101.7	92.0	101.8	90.8	104.4	95.8	101.3	91.5
1984	115.2	101.0	97.6	100.1	96.8	96.5	101.1	89.3	100.7	90.0	100.0	95.0	99.4	96.5	100.1	96.9
1984																
November	123.0	100.4	96.2	100.0	97.0	95.2	101.0	88.8	102.5	91.8	99.6	96.9	98.7	98.0	98.3	98.3
December	123.9	101.1	95.9	100.0	96.0	94.5	101.4	85.4	100.3	91.4	99.0	97.5	98.0	98.1	98.0	98.7
1985																
January	125.3	101.7	94.7	100.3	97.7	95.0	102.6	83.2	100.3	91.7	97.7	98.6	96.4	97.8	97.4	99.4
February	123.7	100.0	93.8	97.9	97.0	94.8	101.7	83.8	100.2	91.4	96.9	96.5	95.0	96.3	98.0	100.2
March	129.0	98.1	94.1	90.2	97.8	94.1	99.8	86.6	100.0	91.7	96.8	98.0	95.5	97.4	98.3	99.6
April	125.7	98.2	93.0	84.0	95.5	94.6	99.6	81.9	100.3	91.4	97.1	98.9	96.3	98.3	98.5	98.1
May	126.1	97.0	92.9	82.4	99.2	94.4	99.8	82.4	100.0	90.4	97.0	97.8	95.4	97.6	99.3	98.0
June	124.7	97.8	93.0	80.8	98.7	94.3	99.5	84.0	100.3	89.9	97.4	98.0	95.3	97.3	99.1	97.6
July	120.6	97.7	93.9	80.9	100.0	94.2	97.8	87.8	100.9	90.0	98.2	97.1	97.8	96.6	99.0	97.4
August	119.1	97.3	94.1	80.3	102.1	96.0	96.1	95.8	103.7	89.4	98.9	96.0	98.3	97.4	98.1	97.0
September	118.0	97.6	95.2	80.8	102.3	95.0	96.3	96.1	103.8	89.0	100.0	96.8	97.2	97.8	99.3	97.0
October	112.0	96.9	102.9	87.9	100.9	96.7	96.3	94.0	104.4	89.5	101.0	95.7	100.0	98.8	98.8	96.5

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.2	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	93.1	100.2
1981	107.1	103.2	108.1	109.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.2	104.4
1982	75.9	112.0	96.7	104.5	85.9	103.8	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.7	104.0	78.0	97.7	116.1	96.6	95.7	87.3	112.7	95.1	97.1	93.1	119.4	92.8
1984	79.9	85.2	89.8	99.3	91.5	105.8	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1984																
October	80.0	88.9	89.9	98.4	96.3	107.9	87.5	105.3	97.8	97.3	121.1	112.4	96.1	98.2	122.0	94.5
November	73.7	83.4	88.1	97.4	95.8	104.8	87.8	104.7	96.5	96.3	119.7	109.0	95.0	96.6	121.9	95.4
December	78.1	81.1	86.9	96.0	96.1	101.6	89.0	107.1	96.7	96.8	121.3	111.9	95.5	97.4	114.1	95.5
1985																
January	75.8	74.1	82.1	99.3	87.8	98.4	90.3	108.8	100.0	97.0	120.5	118.4	95.7	98.3	109.4	98.0
February	72.1	73.2	88.5	99.7	100.2	96.8	94.4	111.2	91.2	97.9	118.4	123.5	95.7	99.5	119.4	102.3
March	76.5	86.7	92.8	98.8	103.9	99.2	94.4	112.5	99.0	95.2	118.1	123.4	95.7	98.6	115.9	101.5
April	78.2	88.0	81.5	91.2	98.5	91.1	92.4	108.7	98.7	92.1	118.0	116.7	94.4	96.1	112.5	96.3
May	76.7	84.2	83.8	93.7	97.5	90.8	93.7	102.9	98.2	91.1	119.0	117.4	93.2	95.2	104.6	94.2
June	75.7	81.0	84.8	96.8	87.4	91.1	95.0	108.1	98.5	90.0	118.6	117.0	91.3	94.6	105.3	90.1
July	88.0	79.9	78.8	83.1	90.5	99.3	97.9	109.0	93.1	87.7	115.9	113.2	87.7	91.9	99.2	86.6
August	87.3	80.6	74.2	85.1	87.0	89.3	101.6	109.9	93.4	85.9	114.3	111.8	86.1	96.4	98.4	85.2
September	87.9	81.2	75.7	79.7	82.4	87.0	103.8	105.4	93.8	86.1	114.6	121.2	85.7	91.0	102.2	86.4

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984	1985				
				Mar	Jun	Sep	Dec	Mar	Jun
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 339	2 330	2 322	2 352	2 461	2 446
On nonbanks	187	204	225	235	279	276	284	708	719
On banks	1 872	1 942	2 028	1 664	1 651	1 646	1 668	1 753	1 727
In dollars	1 854	1 894	1 797	1 341	1 350	1 357	1 387	1 947	1 911
In other currencies	425	458	456	328	480	465	465	514	535
Domestic currencies, on nonresidents	365	398	398	400	406	393	397	402	416
On nonbanks	128	132	135	136	140	138	137	140	143
On banks	237	266	263	264	266	255	260	262	273
In dollars	188	211	217	206	218	208	210	201	204
In other currencies	177	187	181	154	188	185	187	201	212
Total	2 294	2 544	2 651	2 739	2 736	2 715	2 749	2 863	2 862
On nonbanks	315	336	360	371	419	414	421	848	862
On banks	1 979	2 208	2 291	1 938	1 917	1 901	1 928	2 015	2 000
In dollars	1 892	1 965	1 814	1 347	1 368	1 368	1 397	2 148	2 115
In other currencies	802	1 243	1 477	592	549	533	531	715	747
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 168	2 278	2 362	2 360	2 349	2 383	2 481	2 467
To nonbanks	372	400	479	509	503	492	500	508	508
To official monetary institutions	112	131	88	80	88	94	96	96	106
To other banks	1 470	1 537	1 711	1 773	1 769	1 753	1 787	1 877	1 853
In dollars	1 433	1 541	1 646	1 682	1 695	1 610	1 649	2 001	1 964
In other currencies	415	427	435	390	455	437	434	480	503
Domestic currencies, to nonresidents	263	250	256	262	277	274	277	289	306
To nonbanks	74	72	71	71	71	72	72	78	86
To banks	189	178	185	191	206	202	205	211	220
In dollars	136	116	133	128	140	140	143	143	150
In other currencies	137	154	152	154	157	154	154	146	156
Total	2 217	2 418	2 536	2 624	2 637	2 623	2 660	2 770	2 773
To nonbanks	446	472	550	571	574	564	577	586	594
To banks and official institutions	1 771	1 946	1 986	2 053	2 063	2 059	2 083	2 184	2 179
In dollars	1 665	1 857	1 879	2 010	2 045	2 052	2 082	2 144	2 114
In other currencies	552	561	557	514	582	571	568	626	659
Net market size	1 155	1 285	1 377	1 395	1 417	1 407	1 415	1 442	1 464

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-Sep	
				Jul	Aug	Sep	1985	1984
By country of borrower								
Industrial countries	108 772	102 652	177 077	12 399	22 108	15 311	155 571	134 747
Australia	7 213	5 737	5 816	760	319	862	7 410	3 703
Austria	2 058	1 290	2 254	81	245	210	1 930	1 857
Belgium	1 528	2 168	1 647	58	208	121	2 084	1 366
Canada	15 856	8 571	13 124	1 630	1 718	236	13 427	8 201
Denmark	2 725	3 941	4 825	106	341	267	2 808	4 241
Finland	1 446	1 271	1 713	37	76	115	1 176	1 279
France	14 813	8 626	11 298	1 581	4 890	790	14 705	8 823
Germany	1 101	3 197	2 165	411	390	154	2 051	1 546
Greece	805	1 291	1 551	—	180	101	1 588	1 047
Ireland	1 136	1 869	1 377	—	—	338	1 247	991
Italy	6 687	4 876	6 933	556	—	761	8 481	3 568
Japan	8 397	14 428	17 526	1 535	1 850	1 444	16 189	14 846
Netherlands	1 000	1 213	1 973	216	294	273	1 781	1 637
New Zealand	4 786	802	3 208	784	263	—	1 703	1 716
Norway	2 601	1 969	1 324	335	307	284	3 027	950
Portugal	1 684	1 030	1 796	41	248	183	1 592	1 612
South Africa	1 689	1 300	1 422	85	—	—	825	1 174
Spain	2 675	4 977	4 931	459	46	249	3 398	3 634
Sweden	3 181	7 144	11 256	1 221	1 977	241	6 380	9 602
United Kingdom	2 936	2 726	8 899	512	2 486	4 045	17 197	6 120
United States	21 109	20 276	65 054	3 207	5 247	2 421	40 705	51 881
Other*	3 233	3 950	6 765	393	28	2 317	3 667	4 953
Developing countries	49 023	38 256	39 725	3 867	5 557	2 405	24 675	29 057
Latin American countries	29 667	15 592	17 464	288	4 048	140	5 737	12 781
Argentina	1 565	1 750	4 213	—	3 700	—	3 700	12
Brazil	5 972	4 475	8 648	—	—	—	—	6 586
Chile	1 194	1 405	784	—	—	—	—	784
Colombia	776	552	589	52	—	—	52	589
Mexico	9 968	8 138	3 018	—	—	—	—	3 918
Venezuela	7 241	297	—	—	—	—	—	—
Other**	2 951	2 035	1 318	—	346	140	1 985	892
Asian countries	11 723	12 978	15 893	3 085	1 489	2 215	14 587	11 514
India	555	968	945	112	41	21	476	501
Indonesia	1 822	2 763	1 924	97	—	—	451	1 873
Korea	3 277	4 387	6 203	214	581	499	4 673	4 796
Malaysia	2 672	2 197	2 605	—	850	—	1 703	1 743
Philippines	888	678	925	—	—	—	925	—
Thailand	414	747	1 231	50	21	314	1 101	905
Other	1 895	1 438	2 672	2 576	196	1 382	5 258	1 696
Middle Eastern and African countries	7 633	9 686	6 368	495	20	50	3 750	4 762
Algeria	86	1 993	621	—	—	—	1 300	200
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	—	90	—	624	716
Other	5 201	4 244	3 821	495	—	50	1 827	2 861
Eastern European countries	1 479	1 294	3 244	1 125	598	52	4 084	2 495
Hungary	340	741	1 386	125	298	52	1 148	1 265
Soviet Union	1 131	53	1 061	109	—	—	1 191	904
Other***	8	460	607	890	190	—	1 744	326
International organizations****	11 353	16 201	13 287	2 259	1 434	1 751	15 698	8 502
By type of instrument and currency								
International bond issues	78 042	76 329	107 411	11 524	13 493	13 213	121 147	74 872
Eurobonds	51 645	48 501	79 458	7 805	11 745	10 647	89 741	53 862
U.S. dollar	43 959	38 428	63 593	4 340	7 177	7 715	73 382	43 732
German mark	2 586	3 817	4 604	283	376	656	4 998	3 214
British pound	748	1 947	3 997	256	329	804	3 606	2 552
Japanese yen	374	212	1 212	430	1 920	137	4 353	409
European composite units	1 980	2 819	5 032	717	497	746	5 278	2 048
Other	1 996	2 015	3 020	1 577	1 496	588	7 925	1 907
Foreign bonds	26 397	27 828	27 953	3 721	1 748	2 566	21 406	21 010
U.S. dollar	5 946	4 545	5 487	1 140	142	142	3 441	3 787
German mark	2 952	2 671	2 243	292	183	121	1 373	1 409
British pound	1 214	811	1 290	142	140	101	674	1 019
Swiss franc	11 437	14 299	12 626	1 238	889	1 035	9 140	10 554
Japanese yen	3 418	3 772	4 628	836	375	870	5 050	3 061
Other	1 475	1 730	1 677	273	184	295	1 729	1 180
International bank credits	92 586	82 074	125 922	8 125	16 205	6 306	78 280	99 929
Eurocurrency credits	85 015	74 222	112 605	7 888	15 572	5 576	73 414	88 308
Foreign credits	7 570	7 852	13 317	237	633	731	4 866	11 621
Total	170 627	156 403	233 333	19 649	29 698	19 519	199 427	174 801

*Includes multinational organizations

**Imagined unassociated

***Includes COMECON institutions

****Includes regional development organizations

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
Eurodollar										
overnight	9.25	9.50	8.63	8.31	7.50	8.00	8.50	7.56	8.38	7.88
one month	9.13	9.69	8.38	8.38	7.56	7.63	7.94	7.94	7.94	7.88
three months	8.19	9.81	8.63	8.63	7.63	7.75	8.19	8.00	8.06	7.94
six months	8.50	10.00	9.13	9.00	7.88	7.88	8.44	8.13	8.31	8.00
twelve months	9.63	10.38	9.81	9.75	8.38	8.25	8.86	8.56	8.56	8.25
Euro-Canadian dollar										
one month	10.00	9.13	10.68	9.50	9.50	8.00	8.69	8.75	8.38	8.31
three months	10.00	9.50	10.81	9.81	9.50	9.38	8.94	8.94	8.69	8.38
six months	10.13	9.75	10.06	10.38	9.63	9.50	9.31	9.19	9.06	8.56
twelve months	10.25	10.00	10.44	10.75	9.94	9.63	9.50	9.50	9.38	8.94
Euro-French franc										
one month	23.00	12.13	10.69	10.31	10.13	10.50	14.00	9.63	9.63	9.19
three months	24.00	12.19	10.69	10.44	10.25	10.63	14.00	10.63	10.50	9.63
six months	22.00	12.31	11.00	10.75	10.38	10.75	13.75	11.50	10.86	10.63
twelve months	19.75	12.63	11.38	10.94	10.63	11.25	12.00	11.75	11.25	10.88
Euromark										
one month	5.88	5.25	5.50	5.75	5.50	5.44	4.68	4.50	4.44	4.69
three months	5.88	5.25	5.50	5.81	5.50	5.44	4.81	4.50	4.50	4.63
six months	5.94	5.13	5.59	5.98	5.56	5.44	4.94	4.76	4.63	4.94
twelve months	5.00	5.38	5.15	6.09	5.56	5.63	5.90	4.69	4.75	5.06
Euro-Dutch guilder										
one month	5.13	5.81	5.69	6.54	7.00	6.75	6.06	6.75	5.69	6.13
three months	5.13	6.00	5.75	6.54	6.88	6.60	6.00	5.89	5.69	6.19
six months	5.38	5.25	5.81	6.84	6.88	6.69	6.00	5.69	5.69	6.19
twelve months	5.63	5.19	5.34	7.00	6.81	6.69	6.00	5.69	5.69	6.25
Euro-Swiss franc										
one month	2.81	5.58	4.44	5.60	5.13	5.13	4.38	4.44	4.19	3.88
three months	3.25	5.75	4.50	5.19	5.13	5.00	4.50	4.50	4.50	4.44
six months	3.44	5.94	4.83	5.25	5.06	5.13	4.61	4.69	4.63	4.50
twelve months	3.44	5.94	4.89	5.25	5.00	5.13	4.69	4.63	4.63	4.56
Eurosterling										
one month	10.56	8.54	8.40	12.75	12.63	12.63	11.60	11.88	11.63	11.56
three months	10.44	8.81	8.67	12.63	12.44	12.44	11.15	11.63	11.50	11.50
six months	10.31	8.50	10.70	12.44	12.63	12.63	11.60	11.13	11.19	11.44
twelve months	10.31	8.81	10.70	12.13	12.63	11.94	10.85	11.06	11.00	11.19
Euroyen										
one month	8.25	8.25	7.10	8.13	8.00	8.19	8.25	6.44	6.75	7.50
three months	8.50	8.50	6.19	8.25	8.25	8.25	8.31	6.38	6.38	7.75
six months	7.10	8.18	5.13	8.31	8.25	8.25	8.25	6.31	6.38	7.38
twelve months	8.81	8.44	8.13	8.31	8.31	8.31	8.25	6.31	6.38	7.06
European currency unit										
one month	12.44	8.81	9.25	9.38	9.31	9.38	8.50	8.60	8.31	8.31
three months	12.31	9.19	9.25	9.31	9.31	9.38	8.25	8.50	8.50	8.50
six months	12.50	9.44	9.13	9.13	9.38	9.38	8.61	8.75	8.75	8.81
twelve months	11.13	9.81	9.81	9.81	9.81	9.81	8.75	8.88	8.88	8.75

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1983	1984	1985							
	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States companies										
Eurodollar	11.59	11.25	11.75	11.24	11.58	10.40	10.80	10.37	10.33	10.37
Euromark	7.34	8.00	7.35	7.51	7.80	8.81	8.74	8.87	8.74	7.13
Swiss franc	8.83	8.73	8.86	8.74	8.88	8.88	8.88	8.88	8.88	8.88
European governments										
Eurodollar	12.65	12.54	12.20	11.87	11.20	11.17	11.31	11.11	11.18	11.04
Euromark	8.42	7.09	7.83	7.84	7.81	7.88	7.17	8.88	8.88	7.23
Swiss franc	5.63	5.24	5.34	5.31	5.20	5.22	5.16	5.09	5.07	5.02
European currency unit	11.77	12.84	12.44	12.58	12.10	12.17	9.93	10.51	10.14	10.42

Central bank discount rates

at or near end of month

	1982	1983	1984	1985						Current	
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct		Nov 14 1985	effective since
United States	8.50	8.50	8.00	7.50	7.50	7.50	7.50	7.50		7.50	May 17, 85
Canada	10.05	9.96	10.09	9.58	9.31	9.20	9.00	8.78		8.96	Nov 14, 85
Austria	4.75	3.75	4.50	4.50	4.50	4.00	4.00	4.00		4.00	Aug 19, 85
Belgium	11.50	10.00	11.00	9.25	9.50	10.00	9.50	9.00		8.75	Nov 14, 85
Denmark	11.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00		7.00	Oct 27, 83
Finland	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00		9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50		9.50	Aug 31, 77
Germany	8.00	4.00	4.50	4.50	4.50	4.00	4.00	4.00		4.00	Aug 16, 85
Ireland	14.00	12.25	14.00	12.00	11.25	11.25	10.25	10.25		10.25	Sep 11, 85
Italy	18.00	17.00	18.50	15.50	15.50	15.50	15.50	15.50		15.00	Nov 8, 85
Netherlands	5.00	5.00	5.00	5.50	5.50	5.00	5.00	5.00		5.00	Aug 16, 85
Norway	5.00	6.00	8.00	8.00	8.00	8.00	8.00	8.00		8.00	Jun 6, 83
Portugal	13.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00		25.00	Aug 85
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00		8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	11.50	10.50	10.50	10.50	10.50		10.50	Jul 12, 85
Switzerland	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00		4.00	Mar 18, 83
United Kingdom	10.75	9.00	9.25	12.25	11.25	11.25	11.25	11.25		11.25	Jul 26, 85
Japan	4.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00		5.00	Oct 22, 83
New Zealand	13.00	13.00	12.00	13.00	13.00	13.00	13.00	13.00		13.00	Jul 81
South Africa	13.48	18.50	21.75	19.25	19.75	19.50	19.50	19.50		19.50	Oct 22, 85
Argentina*	11.50	15.10	18.93	9.80	9.00	8.00	8.50	8.00	n.a.	n.a.	Oct 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	n.a.	n.a.	Mar 29, 82
Philippines	8.00	8.00	12.11	12.00	12.00	12.00	12.00	12.00	n.a.	n.a.	Sep 85
Singapore	7.00	5.00	5.75	6.50	6.00	6.00	6.00	6.00	n.a.	n.a.	Jul 85
Thailand	11.00	13.00	12.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Oct 16, 85

Day-to-day money rates

monthly averages

	1982	1983	1984	1985							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct		
United States	8.50	8.47	8.00	8.18	8.07	8.07	7.51	7.48	7.93	7.92	7.98
Canada	10.05	9.96	10.09	9.41	9.29	9.15	9.46	9.27	8.97	8.51	8.58
Austria	4.75	3.75	4.50	4.70	4.58	4.53	4.13	4.13	3.38	4.88	5.50
Belgium	11.50	10.00	11.00	9.18	9.45	9.51	9.50	8.97	8.00	7.91	8.23
Finland	11.50	10.25	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
France	12.00	12.25	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Germany	8.15	5.51	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Ireland	14.00	12.25	14.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Italy	18.00	17.00	18.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50
Netherlands	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Norway	5.00	6.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Sweden	10.00	8.50	9.50	11.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Switzerland	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
United Kingdom	10.75	9.00	9.25	12.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Australia	11.04	8.58	10.81	10.54	10.76	11.12	10.37	10.10	9.8	9.8	9.8
Japan	4.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
South Africa	13.48	18.50	21.75	19.25	19.75	19.50	19.50	19.50	19.50	19.50	19.50
Argentina*	12.77	14.69	17.75	20.35	21.73	22.00	14.52	15.00	9.99	5.00	5.40
Brazil	150.42	184.64	212.30	217.79	248.00	207.31	228.40	214.19	194.80	237.50	237.20
Hong Kong	8.13	13.40	6.86	6.18	7.21	5.88	6.95	4.95	5.14	4.71	4.38
Korea	13.24	11.40	10.00	8.70	8.40	8.50	9.00	9.00	9.00	9.40	9.60
Philippines	16.12	15.15	15.22	27.90	23.87	28.17	29.09	20.30	18.28	10.25	n.a.
Singapore	11.45	7.00	6.01	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Taiwan	9.94	7.83	8.21	8.00	8.40	8.58	8.47	8.79	8.33	6.81	5.30

*Percent per month.

Treasury bill rates

Annualized yields, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	6.71	6.27	7.93	6.42	6.16	7.63	7.05	7.40	7.36	7.13	7.44
Canada	9.91	9.75	9.94	10.43	9.77	9.51	9.33	9.06	8.95	8.75	8.53
Belgium	11.30	11.10	12.50	10.60	9.85	9.13	9.02	9.53	9.03	9.26	8.92
Denmark	13.20	12.60	13.10	13.77	13.43	12.21	11.29	10.36	10.43	9.89	10.14
Italy	16.75	14.40	14.90	10.00	14.31	14.22	14.18	14.08	13.99	13.62	n.a.
Netherlands	8.81	8.61	9.88	8.70	8.39	8.70	8.75	8.39	8.75	8.75	8.19
Spain	11.10	10.40	9.40	10.41	10.94	10.62	10.27	n.a.	n.a.	n.a.	n.a.
Sweden	12.00	10.70	11.00	12.33	12.67	10.81	10.64	10.04	10.00	10.33	10.37
Switzerland	10.40	10.14	10.00	10.13	10.26	12.50	12.34	11.30	11.31	11.36	11.45
Australia	8.00	8.44	10.21	10.63	10.73	10.25	10.20	10.70	10.12	n.a.	10.36
Japan	4.40	4.10	4.91	4.47	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	17.20	16.00	14.00	16.10	20.40	21.30	21.20	24.10	n.a.	n.a.	n.a.
South Africa	14.00	13.80	21.44	20.40	21.00	18.70	18.90	18.72	18.72	18.22	18.87
Brazil	210.00	200.00	200.00	210.00	200.00	210.00	200.00	200.00	200.00	200.00	200.00
Mexico	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Hong Kong	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Singapore	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

Representative money market rates

Bank offered rates for 30-day money market, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	6.70	6.26	8.14	6.43	6.16	7.63	7.05	7.40	7.36	7.13	8.07
Canada	9.90	9.67	9.90	10.40	9.76	9.50	9.32	9.05	8.94	8.74	8.70
Belgium	11.30	11.10	12.50	10.60	9.85	9.20	9.10	9.60	9.10	9.35	8.85
France	13.20	12.60	13.10	13.77	13.43	12.20	11.20	10.30	9.75	9.44	9.25
Germany	16.75	14.40	14.90	10.00	14.30	14.20	14.10	14.00	13.90	13.50	13.95
Ireland	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Italy	16.75	14.40	14.90	10.00	14.30	14.20	14.10	14.00	13.90	13.50	13.95
Netherlands	8.81	8.61	9.88	8.70	8.39	8.70	8.75	8.39	8.75	8.75	8.19
Spain	11.10	10.40	9.40	10.41	10.94	10.62	10.27	n.a.	n.a.	n.a.	n.a.
Sweden	12.00	10.70	11.00	12.33	12.67	10.81	10.64	10.04	10.00	10.33	10.37
Switzerland	10.40	10.14	10.00	10.13	10.26	12.50	12.34	11.30	11.31	11.36	11.45
United Kingdom	10.40	10.14	10.00	10.13	10.26	12.50	12.34	11.30	11.31	11.36	11.45
Australia	8.00	8.44	10.21	10.63	10.73	10.25	10.20	10.70	10.12	n.a.	n.a.
Japan	4.40	4.10	4.91	4.47	4.91	4.91	4.91	4.91	4.91	4.91	7.11
New Zealand	17.20	16.00	14.00	16.10	20.40	21.30	21.20	24.10	n.a.	n.a.	n.a.
South Africa	14.00	13.80	21.44	20.40	21.00	18.70	18.90	18.72	18.72	18.22	18.87
Chile	210.00	200.00	200.00	210.00	200.00	210.00	200.00	200.00	200.00	200.00	200.00
Hong Kong	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Indonesia	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Philippines	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Singapore	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	8.25	6.75	8.25	8.50	8.25	7.50	7.57	7.95	7.88	7.80	7.80
Canada	9.25	9.50	10.00	10.50	10.15	9.75	9.65	9.20	9.10	8.90	8.65
Austria	8.25	6.50	7.50	6.50	6.50	6.50	6.50	6.38	5.75	5.25	5.63
Belgium	12.25	11.25	10.50	10.25	9.50	9.50	8.75	9.50	9.31	9.13	8.75
Denmark	5.00	6.00	6.20	6.00	6.00	6.00	6.00	5.00	5.00	7.00	7.00
Finland	4.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
France	9.24	7.66	7.04	6.80	6.82	6.67	6.69	n.a.	6.49	n.a.	6.27
Germany	6.00	5.90	5.25	5.10	5.45	5.30	5.15	4.45	4.25	4.25	4.55
Ireland	15.25	14.75	14.50	13.50	12.00	11.75	11.25	10.00	10.00	9.50	9.88
Italy	15.25	13.25	11.50	10.85	10.00	10.00	10.00	10.00	10.00	n.a.	n.a.
Netherlands	5.25	6.12	5.50	5.81	7.00	6.81	6.63	6.00	5.69	5.69	6.19
Norway	13.50	14.75	12.75	12.75	12.75	12.40	12.25	12.25	12.00	12.00	12.00
Portugal	10.00	21.50	27.00	27.00	27.00	27.00	27.00	27.00	24.50	24.50	24.50
Spain	12.50	12.62	11.64	12.80	10.61	10.63	10.55	n.a.	10.43	10.42	n.a.
Sweden	12.50	11.75	11.40	11.75	12.75	16.15	16.57	14.95	14.61	13.90	14.08
Switzerland	7.00	6.50	4.50	5.00	7.50	8.88	5.13	4.85	4.38	4.25	4.50
United Kingdom	11.51	9.31	8.85	11.00	12.00	12.38	12.31	11.06	11.31	11.28	11.44
Australia	10.20	12.40	12.25	14.48	13.33	14.50	15.40	14.85	n.a.	n.a.	n.a.
Japan	7.00	6.50	6.24	6.58	6.28	6.30	6.30	6.35	6.41	6.43	7.32
New Zealand	16.00	11.50	15.25	21.70	23.00	23.50	23.50	24.50	n.a.	n.a.	n.a.
South Africa	15.25	20.50	22.48	22.50	22.25	22.25	18.50	18.50	17.25	16.00	15.00
Argentina*	8.00	12.00	25.25	25.00	25.00	22.50	7.00	7.00	7.00	5.25	4.80
Brazil	21.00	28.00	28.00	28.00	28.00	28.00	24.00	23.00	21.00	19.00	16.00
Chile	21.00	28.00	28.00	28.00	28.00	28.00	28.00	28.00	n.a.	15.00	n.a.
Hong Kong	7.50	6.50	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Korea	7.50	6.50	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Malaysia	6.40	6.75	6.88	6.88	6.42	6.61	6.17	6.17	6.17	6.17	7.00
Mexico	22.50	21.50	22.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50
Philippines	13.50	14.00	11.00	12.10	22.48	21.40	22.48	18.00	17.35	14.26	n.a.
Singapore	6.25	6.44	6.15	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Taiwan	7.50	7.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Thailand	10.00	10.00	10.00	10.00	10.00	11.00	11.00	10.00	10.00	10.00	10.00
Venezuela	13.50	12.50	12.50	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00

*Percent per month.

Domestic government bond yields

long-term (lower at or near end of month)

	1982	1983	1984	1985							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	10.51	12.50	11.50	11.50	11.50	12.71	10.62	10.91	10.83	10.67	10.62
Canada	11.50	12.00	11.50	11.50	11.50	10.75	10.88	10.81	10.79	10.96	10.72
Austria	8.91	8.00	8.00	8.00	8.00	9.01	7.87	7.77	7.58	7.34	7.38
Belgium	12.50	11.88	11.50	11.50	11.40	13.78	10.34	10.30	10.50	10.42	10.15
Denmark	20.54	12.98	14.80	15.15	12.87	12.00	12.16	10.70	10.70	11.23	10.79
Finland	12.44	11.80	12.70	12.00	11.00	10.45	10.40	10.40	10.42	10.35	10.36
France	15.40	13.90	12.70	12.27	11.08	11.72	12.12	11.87	11.00	11.87	10.73
Germany	7.40	6.78	7.47	7.44	7.40	7.10	7.02	6.68	6.52	6.55	6.90
Ireland	14.50	14.25	14.00	13.50	13.00	13.17	12.21	11.20	11.74	11.92	11.84
Italy	14.75	15.00	14.50	13.48	13.50	13.60	13.67	14.00	14.04	13.73	n.a.
Netherlands	8.00	8.14	7.12	7.00	7.75	7.58	7.38	7.02	6.82	6.67	7.03
Norway	15.42	12.50	12.90	12.50	12.50	12.50	12.70	12.70	12.70	12.70	12.70
Portugal	10.50	22.11	22.11	22.21	21.84	21.80	22.23	20.84	n.a.	n.a.	n.a.
Spain	15.50	17.00	16.50	16.40	16.40	13.80	13.70	14.48	14.37	13.82	12.58
Sweden	13.50	12.00	12.50	12.80	13.42	13.70	13.48	12.88	13.22	13.54	13.40
Switzerland	4.23	4.50	4.60	4.60	4.75	4.74	4.78	4.60	4.69	4.71	4.58
United Kingdom	10.62	9.54	10.25	10.34	10.42	10.57	10.45	10.16	10.12	10.15	10.18
Australia	13.00	13.80	13.40	13.80	14.00	13.70	13.50	13.50	13.95	n.a.	n.a.
Japan	7.80	7.45	6.38	6.57	6.85	6.80	6.53	6.35	6.40	6.36	6.55
New Zealand	22.84	15.50	16.00	17.50	17.80	19.64	17.32	17.80	17.70	n.a.	n.a.
South Africa	11.31	13.64	16.50	16.85	16.40	16.80	16.15	15.90	16.20	16.65	17.50
Philippines	13.54	14.47	18.54	13.89	12.75	n.a.	13.80	13.29	n.a.	n.a.	n.a.
Venezuela	15.00	13.50	14.00	13.00	13.50	12.50	12.50	12.00	12.00	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1992	1993	1994	1995							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	11.50	11.00	10.75	10.50	10.50	10.00	9.50	9.50	9.50	9.50	9.50
Canada	12.50	11.50	11.25	11.25	10.75	10.50	10.50	10.50	10.25	10.25	10.00
Austria	11.75	9.25	9.25	10.25	9.25	9.25	9.25	9.25	9.25	9.25	9.00
Belgium	15.00	13.75	14.00	14.00	11.75	12.00	12.00	12.00	12.00	12.00	11.50
Denmark	14.00	13.00	12.00	11.00	10.50	10.50	10.50	9.50	9.50	9.50	8.50
Finland	8.50	10.50	10.50	11.00	10.50	10.50	10.50	10.50	10.50	10.50	n.a.
France	12.25	12.25	12.00	11.50	11.50	11.25	11.25	10.75	10.75	10.50	10.50
Germany	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Ireland	16.00	13.75	14.00	14.75	14.00	14.00	14.00	13.25	13.25	12.50	12.50
Italy	10.75	13.75	14.00	13.00	11.00	11.00	11.00	11.00	10.50	10.00	10.00
Netherlands	9.25	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Norway	14.50	13.50	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Portugal	20.50	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Spain	15.00	20.50	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	14.50
Sweden	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Switzerland	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
United Kingdom	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Australia	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	n.a.
Japan	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
New Zealand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	n.a.
South Africa	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Argentina*	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Brazil	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Chile	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Hong Kong	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Indonesia	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Philippines	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Singapore	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Taiwan	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

*Percent per month

Domestic corporate bond yields

long-term issues, at or near end of month

	1992	1993	1994	1995							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	11.75	12.00	12.25	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Canada	12.75	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
France	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Germany	9.25	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Netherlands	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Norway	14.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Spain	17.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
Sweden	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Switzerland	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
United Kingdom	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Japan	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

Key to data in tables

I. International markets

Data on the international banking market are based on resident and nonresident Eurocurrency (i.e. through currency units and facilities and on interbank deposits) currency markets and, except for banks in nearly all Eurozone countries, the dollar market. Banks in Canada, European countries, Hong Kong, Japan, Netherlands Antilles, Russia, Singapore, and the United States, in which and outside of interbank currency markets (offices) of banks in the United States are located in Eurocurrency.

An international bank issue may be a bank Eurocurrency issue or a foreign bank issue. A Eurocurrency bank is one whose deposits in currencies other than that of its country in which the bank is located, which usually through an interbank deposit, a foreign bank issue is one issued by a nonresident bank on the market for a foreign currency and which may be in that country's currency. Data on the interbank bank issue market include all currency interbank issues in dollar, yen, and other currencies, with markets trading rate rates and certificates of deposit with all banks. Banks of 10 or more in dollar issues are included in the 1984 survey, while banks with smaller issues are included in the 1985 survey.

An international bank issue may be a bank Eurocurrency issue or a foreign bank issue. A Eurocurrency bank is one whose deposits in currencies other than that of its country in which the bank is located, which usually through an interbank deposit, a foreign bank issue is one issued by a nonresident bank on the market for a foreign currency and which may be in that country's currency. Data on the interbank bank issue market include all currency interbank issues in dollar, yen, and other currencies, with markets trading rate rates and certificates of deposit with all banks. Banks of 10 or more in dollar issues are included in the 1984 survey, while banks with smaller issues are included in the 1985 survey.

Data on interbank bank issues and bank issues through 1984 were compiled by Money Markets Trust Company, beginning in January 1985. Bank data are based on figures published in the *Global Vantage* monthly survey.

II. Domestic markets

Central Bank discount rates

Bank issues are based on the central bank's discount rate with the exception of the Republic of China (Taiwan) rate.

South Africa — discount rate on the bank's acceptance.
United Kingdom — rate of discount on bank's acceptance of bills by bank's bank.

Day-to-day money rates

Argentina — total interbank money reported by the Central Bank.

Australia — interbank overnight money rate on the Sydney interbank money market.

Belgium — day-to-day bank rate on the bank money market.

Brazil — interbank overnight money.
Canada — market bank's 3% bank rate.
Finland — bank of Finland's money.

France — interbank call money against overnight bank.

Germany — interbank call money.
Hong Kong — interbank call money.
Ireland — interbank call money.

Italy — interbank call money.
Japan — interbank call money.
Netherlands — interbank call money.

Portugal — interbank call money.
Singapore — interbank call money.

Spain — interbank call money.
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Switzerland — interbank call money.
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Japan — 3-month "gen-aki" rate.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.
Eurozone-weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 180-day bank acceptances.

Spain — 3-month interbank deposits.

Sweden — 3-month interbank deposits.

Switzerland — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial order.

Commercial bank deposit rates

Argentina — annual 30-day time deposits.
Average of bank rates published by the Central Bank until August 1984. New series in 1985.
Australia — 3-month time deposits.
Austria — 3-month time deposits of deposit.

Belgium — average minimum rate for 3-month time deposits in large amounts.

Canada — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Denmark — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

France — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Germany — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Greece — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

India — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Italy — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Japan — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Korea — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Malaysia — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Netherlands — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

New Zealand — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Portugal — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Singapore — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Spain — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Sweden — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Switzerland — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

United Kingdom — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

United States — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

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United States — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

United States — 3-month time deposits of deposit with interest rate until July 1982. New series in 1983.

Key to data in tables — continued

Spain — Deposits over 6 months and less than 1 year for Ptas. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 30-year government bonds.

Belgium — Belgian National Bank secondary market average yield on Central Government bonds of more than 12 years maturity quoted on Brussels Stock Exchange.

Canada — Bank of Canada average yield on all direct government bonds due in 10 years or more.

Denmark — 12% tax exempt floating yield until April 1983. New series as of May 1983. 10% serial bonds maturing 2004.

Finland — rate of interest on 3-month term government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — 1983 secondary market weighted average yield of 3-year term bonds with a remaining maturity of 10 years or more.

Germany — Frankfurt Allgemeine Zeitung 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on 1-year interest government bonds, but including government bonds weighted by the amounts outstanding for maturities of 9 years or more.

Japan — Average yield of domestic government bonds with maturities of 10 years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three-year government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1980 until December 1982. New series as of January 1983, average yield of 100-day government bonds.

Philippines — weighted average interest rate of outright sales of new debt offerings for Central Bank certification of solvency.

Portugal — yield of 1% Certificados Ligeiros 1940.

South Africa — 25-year Government Bonds until August 1983. 20-year Republic of South Africa Bonds until April 1984. New series as of May 1984. Secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with average maturity of less than five years.

Sweden — 15-year government bonds sold October 1983. New series as of November 1983. 5-year government bond sold under market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — FT (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on \$0 day loan.

Austria — overdraft rate for prime borrowers including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — preferred rate applied to working capital loans until July 1982. Monthly commercial rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983. Maximum rate reported as a spread above monetary interest rate which is set every month in accordance with inflation. Charges for fees and commissions are extra.

Canada — prime rate.

Denmark — preferred rate (half of six-month commercial bank rate).

Germany — approximate rate for bank and credit on 10-year borrowers.

France — average rates on total business credit money.

India — base lending rate, excluding a commission of 60% per month on higher rates. Service charge the month. A small amount above rate of 10% or more.

Indonesia — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — average rate for domestic prime borrowers.

Japan — average rate for domestic prime borrowers.

Kenya — average rate for domestic prime borrowers.

Malaysia — average rate for domestic prime borrowers.

Netherlands — average rate for domestic prime borrowers.

New Zealand — average rate for domestic prime borrowers.

Norway — average rate for domestic prime borrowers.

Philippines — average rate for domestic prime borrowers.

Portugal — average rate for domestic prime borrowers.

South Africa — average rate for domestic prime borrowers.

Sweden — average rate for domestic prime borrowers.

Switzerland — average rate for domestic prime borrowers.

Taiwan — average rate for domestic prime borrowers.

Thailand — average rate for domestic prime borrowers.

United Kingdom — average rate for domestic prime borrowers.

United States — average rate for domestic prime borrowers.

Venezuela — average rate for domestic prime borrowers.

Yugoslavia — average rate for domestic prime borrowers.

Zimbabwe — average rate for domestic prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of 25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to variable interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Yugoslavia — prime rate.

Zimbabwe — prime rate.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporations.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market weighted average yield of industrial bonds with a remaining maturity of more than 3 years.

Indonesia — secondary market yield for NTT long maturity March 1987.

Kenya — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three-year corporate bonds until December 1982. As of January 1983, CBS secondary market weighted average yield on all commercial bank issues with a duration between 10% and 15%.

Norway — 5.75% Dagen Portland-Cement Bond of 1960-1984 until December 1982. New series as of January 1983, average yield of domestic industrial bonds.

Philippines — average yield for a selected group of selected companies.

Sweden — Central Statistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Maximum changed as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stocks with an average of 25 years to maturity.

United States — Sponan Brothers index of new issue yields for AA industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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Exchange markets and the U.S. external deficit

Since the September 22 meeting of the G-5, the dollar has fallen over 8% on a nominal effective basis, reaching levels last seen in early 1984 (see Chart 1). From its high of February 25, the dollar has dropped 28% against the mark and 23% against the yen; against major currencies on average, the dollar's decline has been about 18% (see Table 1). The principal reason for this lesser decline is that the Canadian dollar, which receives a weight of around 30% in the effective rate computation, has weakened rather than strengthened.

The overall decline in the dollar has been orderly. Although there is much uncertainty about its future direction, no significant loss of confidence is evident, thanks in part to skillful monetary management by the Federal Reserve. Clearly, the G-5 agreement and the subsequent currency market intervention were well-timed. Contrary to the expectations of many, the intervention succeeded in preventing a rebound of the dollar after the initial announcement effect had faded. It is difficult, however, to disentangle intervention effects from those of changed expectations about economic policies. The success of the intervention last fall, in contrast with that under-

taken last January, stemmed from the hints in the G-5 agreement of greater consistency to come in the economic policies of the major countries. Indeed, the dollar's decline stalled for a time in October until it became evident that policy changes would be made: in Japan, short-term interest rates were jacked up and modest fiscal measures announced. Toward the end of the year expectations climbed for budgetary action in the United States, bond yields tumbled, and hopes spread for lower U.S. interest rates generally.

Still, there is a long way to go before the improved fundamentals the G-5 agreement sought come fully into place or fiscal policies actually become internationally consistent. In the United States the eventual impact of the Gramm-Rudman budget-balancing act is hard to gauge, even setting aside doubts about its constitutionality. The difficult issues on both expenditure and taxation have merely been deferred until later in 1986. In the meantime appropriation bills continue to overrun the guidelines of last summer's Concurrent Budget Resolution and an extremely expensive farm program has been enacted. Nonetheless, the U.S. budget deficit is ex-

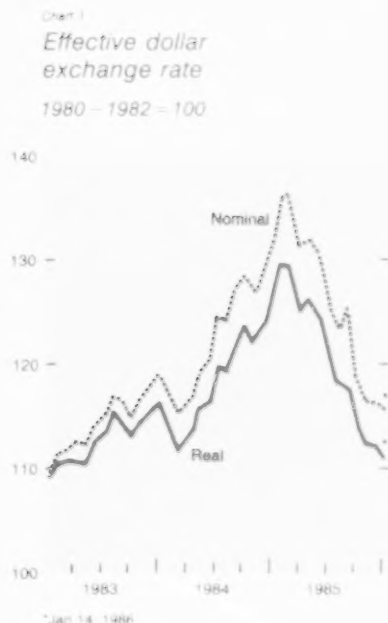


Table 1

Dollar exchange rates

units per dollar, except as noted

	Jan 14, 1986	% changes since	
		Feb 25, 1985	Sep 20, 1985
Nominal effective	115.6	-18.0	-8.2
Real effective	110.9	-17.6	-7.3
<i>Dollar vis-à-vis</i>			
Japanese yen	202.6	-22.6	-15.6
German mark	2.47	-28.4	-13.0
French franc	7.56	-28.3	-12.8
British pound**	1.44	-26.7	-6.3
Italian lira	1680	-22.1	-12.2
Canadian dollar	1.40	0.1	2.2

*1980-82=100

**Dollars per pound

pected to decline as a percentage of GNP. In Japan the government's efforts to boost the yen have relied mainly on monetary restriction. Partly in consequence, a pronounced slowdown in Japan's real GNP growth is in prospect for this year, to 3% or less. As the deflationary impact of Japan's exchange and interest rate policies becomes clear, the need for relaxation in its fiscal posture will be accepted at some point, but no major action is likely to take effect until 1987. In Germany support for bringing forward tax cuts scheduled for 1988 presently is muted by the short-term strength of industrial output. Besides, there remains a powerful official impulse for deficit reduction regardless of economic circumstances. German tax reductions beyond those already in the pipeline are unlikely to be introduced before the 1987 elections.

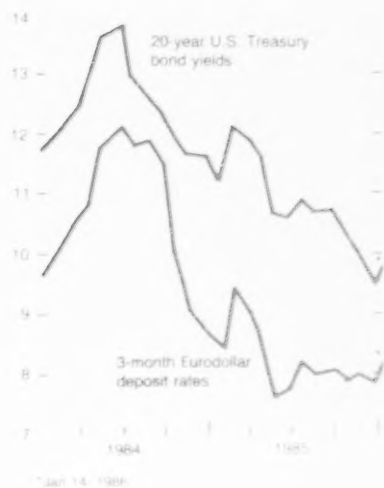
The paucity of policy actions to date means that U.S. current account deficits could exceed \$100 billion a year for some time to come. Their financing has proceeded smoothly so far, surprising those who thought the required capital inflows would disrupt currency and financial markets. The analysis of U.S. capital flows in the article below concludes that the financing position should remain sustainable for some time to come. Nonetheless, the buildup of external indebtedness does present long-term financial risks for the United States. Action is needed now to forestall serious trouble down the road, especially as adjustment will take several years.

There should be no complacency about the adequacy of the benefit to the U.S. current account of the dollar's decline so far. If present levels of exchange rates persist, the trade-weighted value of the dollar in 1986 will be about 6% lower than in 1984; had the dollar remained at its peak of last February, its 1986 value would be 15% higher

than in 1984. Assuming that the competitive gains are not eroded by higher U.S. inflation, this difference should eventually improve the trade balance by \$50 billion or more, relative to what it might otherwise have been. Had the dollar held its peak of a year ago, the outlook would have been for a further sharp deterioration. As things stand now, depending also on global economic growth, the U.S. trade deficit may exceed \$130 billion in 1986, following the estimated red ink of over \$140 billion in 1985. Elsewhere on current account, the depreciation of the dollar will increase the dollar-equivalent value of net direct investment earnings from abroad. In addition, lower interest rates will hold down the growth of U.S. net interest payments to foreigners. On an ongoing basis, however, the depreciation-induced improvements in trade and direct investment income will do little more than offset the progressive deterioration in net interest payments resulting from the cumulation of current account deficits in recent years. With influential congressional voices asserting renewed support for protectionism, the present competitive position does not represent adequate improvement.

At present, the dollar's real effective exchange rate still stands more than 10% above its average during 1980-82, when the United States was approximately in current account balance. Restoration of balance need not be the literal objective in the years ahead. Still, substantial narrowing of the deficit will require stronger trade performance than in 1980-82, because of the subsequent deterioration in investment income. In Japan and Germany, by contrast, the accumulation of foreign assets has improved the investment income account; these two countries can afford less strong trading performance and can tolerate real appreciations in comparison with 1980-82.

Chart 2
U.S. interest rates
per cent per annum



Nominal exchange rates and monetary policies should not be the exclusive focus of efforts to alter competitiveness and restore a better current account pattern among the industrial countries. Undue exchange rate realignment, engineered through sharply reduced interest rates in the United States and increased rates elsewhere, would be very disruptive to financial markets. Violent price swings could result, inflicting arbitrary losses on businesses and consumers. A steep depreciation of the dollar achieved by monetary means could provoke inflationary pressures in the United States, risk recession elsewhere in the world, and depress price levels in a number of industrial countries. Such divergent price behavior would negate part or all of the benefits of dollar depreciation for U.S. competitiveness. Eventually, were inflationary pressures in the United States to get out of bounds, a Federal Reserve policy of monetary ease would become untenable, with recession the only way out. Plainly, this whole course of action would be undesirable for the country whose economy and currency are central to the world's trading and financial systems.

As this new year opens, policymakers in the industrial countries face three principal challenges: to bring about stronger noninflationary growth throughout the world economy, to work toward a better pattern of current account balances, and to prevent serious erosion of confidence in the dollar.

To meet the first of these challenges, the United States, Japan, Germany, and other industrial countries should be alert for opportunities to de-escalate interest rates, perhaps in tandem, during the course of this year. Dogmatic interpretation of the fast growth of the monetary aggregates must be tempered by recognition of their limited predictive value these past several

years. Lower interest rates would both stimulate world activity and reduce the burden of interest payments now being carried by countries, companies, and consumers worldwide. Such action appears warranted by the present and expected quiescence of inflation. U.S. long-term interest rates have declined dramatically in recent months, notwithstanding their abrupt backup after the first week of January. By contrast, U.S. short-term rates have not materially fallen (see Chart 2). As Gramm-Rudman begins to bite, or in the event the economy falters for whatever reason, there would seem to be room for easier U.S. monetary policy, taking U.S. interest rates gradually lower as 1986 goes forward.

Policymakers elsewhere, besides easing their own monetary policies as currency markets permit, need to ensure that any U.S. fiscal restraint is at least offset by fiscal relaxation in the rest of the industrial world, notably in Japan and Germany. Balanced, substantial, but gradual fiscal adjustments would improve the relationship of savings to domestic investment in the major economies. A better pattern of current account balances would be achieved without deflationary bias to the world, since any upward pressures on interest rates in Japan and Germany could be neutralized by their central banks. With the fiscal authorities acting in a mutually supporting way to remedy demand imbalances, the prospects for global economic growth would be enhanced; confidence in the U.S. economy and currency would be better maintained; and the risk of monetary and currency instability provoking a spiral of devaluation and inflation in the United States would be minimized. Implementation of a strategy along these lines is the key task for 1986 and, in particular, for May's Tokyo Summit.

Table 3

U.S. savings and investment
billions of dollars

	1982	1985*
Gross private domestic savings	557	634
Personal	154	134
Corporate and other	403	500
Net foreign savings**	1	103
Total	558	737
Gross private domestic investment	447	665
Government deficits	111	132
Federal	146	191
State and local***	(35)	(59)
Total	558	797

*January-September at an annual rate.
**Breadly, equals current account deficit.
***Surpluses.

U.S. capital flows

The emergence of the United States as a large-scale importer of capital — to finance a current account deficit that reached an estimated \$115 billion in 1985 — has radically altered the pattern of U.S. and world capital flows. In contrast to the massive financial recycling following the two oil shocks of the 1970s, which involved both industrial and less-developed countries, today's international capital flows run mainly among the industrial countries.

Increasingly, these flows result from securities transactions, rather than the traditional direct intermediation of banks. More and more, the commercial banks find themselves agents and arrangers of financing in the form of marketable instruments. This trend toward securitization, which is evident around the world as well as in the U.S. balance of payments statistics, owes much to the quest of investors for international diversification of their portfolios, together with the growing sophistication of financial markets in general and the increasing international integration of once-insular domestic markets.

Thus, U.S. corporations have turned to international bond markets and, more recently, to short-term Euronote and Eurocommercial paper markets for a growing proportion of their outside financing. At the same time, foreign investors have displayed an impressive appetite for U.S. Treasury securities and corporate bonds. Such activity, analyzed in more detail below with the aid of the decidedly imperfect official statistics, has made a major contribution to the smooth financing of the U.S. current account deficit to date. It also has served to supplement inadequate savings in the U.S. domestic economy (see Table 2).

Now, as for some time already,

the key question remains whether U.S. financing needs can be met and sustained in the years ahead without disruption of global money and currency markets. On balance, the prognosis is reassuring: the dollar's decline from its peak last February has proved both orderly and consistent with declines in U.S. nominal interest rates, not increases as some had predicted. Besides, at present the ongoing accumulation of U.S. assets in foreign hands is not large when seen in the context of aggregate world savings and portfolio size. Moreover, U.S. economic growth and inflation prospects compare quite favorably with those elsewhere. Someday, it is true, portfolio holders could find the U.S. paper flow less appetizing, should the U.S. external imbalances go uncorrected or U.S. domestic performance deteriorate markedly relative to Europe, Japan, or the major LDCs. But that day does not look close at hand. And it never need dawn at all if the United States moves forthrightly, in concert with other major nations, to accomplish gradual correction of their several internal and external imbalances in a noninflationary and confidence-sustaining manner.

Problems of analysis

Analysis of U.S. capital flows is complicated by shortcomings in the published statistics. As shown in Table 3, reported net capital flows have swung strongly into surplus, with outflows of nearly \$25 billion in 1982 giving way to inflows of \$82 billion in the first three quarters of 1985 at an annual rate.* Nonetheless, capital transactions are under-

*All figures on capital flows in 1985 are for the first three quarters of the year at an annual rate, unless otherwise noted.

Table 2

U.S. balance of payments
billions of dollars
minus sign indicates deficit or outflow

	1982	1983	1984	1985*
Current account balance	-8	-41	-107	-110
Reported net capital flows	-25	29	77	82
U.S. investment in foreign assets	-119	-55	-20	-17
Foreign investment in U.S. assets	94	84	97	99
Statistical discrepancy	33	12	30	28

*January-September at an annual rate.

Table 5

U.S. direct investment flowsbillions of dollars
minus sign indicates outflow

	1983	1984	1985 ^a
U.S. direct investment abroad**	-92	-15	-12
Equity capital	-88	-15	-17
Reinvested earnings	-86	-16	-15
Intercompany debt	-4	-1	-2
Western Europe	-18	-16	-17
Japan	-14	-11	-10
Europe	-14	-10	-17
Other industrial countries	-10	-14	-11
Developing countries	-17	-1	-4
Foreign direct investment in the United States	119	123	121
Equity capital	118	123	121
Reinvested earnings	117	121	120
Intercompany debt	12	19	1
Western Europe	51	53	54
Japan	27	41	40
Europe	51	53	54
Other industrial countries	28	34	31
Developing countries	27	14	17
Net direct investment	23	108	109
Equity and reinvested earnings	22	107	105
Intercompany debt	1	11	4

^aCompiled from preliminary data.^bAdjusted to include Germany's M.F.I. in 1985.^cSource: IMF, *Yearbook of International Finance Statistics*.

viewed primarily on a net basis. As shown in Table 4, there has been little decline in the acquisition of foreign assets by U.S. nonbank residents and strong growth in foreign acquisition of U.S. assets other than claims on U.S. banks.

One compelling reason to view U.S. banking flows on a net basis lies in the shifting of claims and liabilities from the books of banking offices abroad to the books of International Banking Facility (IBF) offices in the United States. Such shifts peaked on a major scale in December 1981 and early 1982 when IBFs were first established. Much new business now is channeled through these IBFs. As a result both the growth of U.S. resident banks' claims on foreigners and the increase in their liabilities to foreigners have been inflated without significantly affecting net banking flows. The shift of existing business alone has been estimated to have halved the growth of U.S. banks' foreign claims and liabilities by \$35 billion or more in late 1981 and early 1982. In the absence of these shifts, the reported reduction in the rate at which U.S. residents acquired assets abroad after 1982 would have been smaller and the reported rate of acquisitions of assets in the United States by foreigners would have been larger.

A different cause for adjustment of the reported U.S. balance of payments statistics relates to the peculiar treatment of the borrowing abroad by U.S. companies through Eurobonds issued by finance affiliates chartered in the Netherlands Antilles, and the transfer of the proceeds to the U.S. parent. These are jointly recorded as a reduction in U.S. direct investment abroad; the transfer would be more aptly classified as a foreign purchase of U.S. corporate securities. Following the July 1984 elimination of U.S. withholding taxes on interest payable to

foreigners on U.S. securities, newly issued abroad, such bonds have been issued directly by the parent company or an affiliate resident in the United States; correctly, their purchase by foreigners is recorded as an increase in foreign holdings of U.S. securities.

Direct investment

Net U.S. direct investment flows (adjusted to exclude the operations of Netherlands Antilles finance affiliates) turned positive for the first time in 1981. Inflows into the United States have since continued, peaking at nearly \$15 billion in 1984 before sinking back to \$5 billion at an annual rate during the first three quarters of 1985 (see Table 5).

U.S. direct investment abroad averaged only about \$9 billion per annum during 1982-85, down sharply from more than \$19 billion annually in the previous four years. Transfers to affiliates abroad of equity capital from the United States have been relatively small. Most recent U.S. investment abroad has occurred through the reinvestment of earnings. This jumped sharply in 1985, largely because the dollar's decline gave rise to capital gains that were not remitted. Foreign direct investment in the United States, already quite large in the late 1970s and early 1980s, has continued at a vigorous pace, averaging \$17 billion annually during 1982-85.

A major share of net direct investment inflows to the United States now comes through intercompany debt transactions. Relative credit market conditions, including borrowing costs, have favored borrowing abroad to finance investment in the United States. U.S. parent companies have been borrowers from their foreign subsidiaries, and foreign companies have been lenders to their U.S. subsidiaries.

Table 6

U.S. banking flows

Changes in the claims and liabilities of banks in the United States^a
 Current dollar
 minus a general bank outflow

	Year 1981-1984 (year)			
Claims of foreign banks	10	10	11	4
Residual bank claims	10	10	11	4
Deposits	17	18	19	10
Other	10	10	10	10
Direct foreign				
Assets	11	11	11	10
Liabilities				
Foreign banks	14	15	15	10
Domestic branches	12	14	14	10
Total net bank claims	20	20	20	10
Foreign bank claims	10	10	10	10
Deposits	10	10	10	10
Other	10	10	10	10
Total net bank	10	10	10	10
Assets	10	10	10	10
Liabilities	10	10	10	10
Other	10	10	10	10
Total net bank	10	10	10	10
Assets	10	10	10	10
Liabilities	10	10	10	10
Other	10	10	10	10
Total net bank	10	10	10	10

^aSource: Federal Reserve Bank of New York, *Banking in the United States*, 1985.
^bSource: Federal Reserve Bank of New York, *Banking in the United States*, 1985.
^cSource: Federal Reserve Bank of New York, *Banking in the United States*, 1985.

Bank intermediation

The large increase in U.S. capital inflows beginning in 1983 was initially dominated by a large swing in the net flows reported by banks located in the United States for their own account. Net outflow of \$42 billion in 1982 turned to inflows of \$17 billion in 1983 (see Table 6). These inflows increased to more than \$20 billion in 1985.

Two major factors have contributed. First, new lending abroad has increased sharply — especially to developing countries, on which outflows in U.S. bank claims fell from \$36 billion in 1982 to \$14 billion the next year and to only \$2 billion in 1985. In the first three quarters of 1985, such flows actually declined. At the same time, many international security companies have turned to the issuance of international bonds and commercial banknotes and Euro currency deposits as substitutes for bank loans.

Second, network activity by banks in the United States has increased from lending of \$22 billion in 1982 to a net inflow of as much as \$16 billion in 1985. Such activity has increased \$17 billion in 1985. The growth in U.S. bank claims on foreign banks has been substantial. Moreover, the European market previously has offered attractive short-term funding to banks in the United States, especially small banks and the U.S. savings, thrift, and credit associations of foreign banks. In general, however, U.S.-based banks have tended to curtail the growth of their international activity especially as reserves, because of concerns about claims on assets, credit quality, and subsequent credit risks.

Securities transactions

Whereas the reversal of net bank

related flows was the dominant contributor to the step-up in reported U.S. capital inflows between 1982 and 1983, securities transactions have since taken up the running, climbing on a net basis from \$19 billion in 1983 to \$50 billion in 1985 (see Table 7). The jump has been due almost entirely to an increase in foreign purchases of U.S. securities, from a net \$26 billion in 1983 to \$58 billion in 1985, thanks most of all to strong investment fundamentals in the United States relative to other industrial countries. These fundamentals include robust U.S. economic recovery, declining U.S. inflation, attractive interest rates, a strong dollar, healthy corporate profits, political stability, and confidence in U.S. prospects generally. In addition, rapid deregulation and innovation in U.S. financial markets have provided investors, both domestic and foreign, with a wide array of instruments issued and traded in markets with substantial breadth and depth — first since the summer of 1981, from withholding tax on interest paid to foreign holders of notes and bonds issued by U.S. entities.

Although foreign investment in U.S. Treasury securities has risen strongly, reaching \$27 billion in 1984, it slipped a little in the first three quarters of 1985 (see Table 8). European net purchases fell by two-thirds last year and international institutions made net sales. These quite more than offset a surge in Japanese buying by a widening range of investors. Direct Japanese purchases more than doubled to reach almost \$17 billion in January-September 1985. Beyond life insurance companies and trust bank pension accounts, whose foreign holdings approach the administrative limit of 10% of their total assets, the newer investors include banks, the postal life and annuity fund, non-financial corporations, and individu-

Table 7

U.S. securities flows

billions of dollars
minus sign indicates outflow

	1983	1984	1985*
Net foreign purchases of U.S. securities	28	21	28
Official	8	2	2
Private	21	19	26
Treasury securities	15	17	27
Government securities and federal agency securities	9	—	2
Corporate bonds**	3	18	22
Corporate stocks	3	—3	1
Net U.S. purchases of foreign securities	-7	22	-4
Directly held	1	27	4
Bonds	-1	24	3
Net securities flows	21	43	24
Western Europe	-2	14	22
Japan	1	3	19
Canada	1	2	3
Other industrial countries	—	—	—
Latin America	-2	17	18
Other countries**	21	18	11
International development	20	18	10

*January-December, all in billions.

**Adjusted to include the net proceeds from the sale of U.S. Treasury bonds to nonresidents and the net proceeds from the sale of U.S. Treasury bonds to nonresidents.

als. The impression has taken hold that U.S. securities constitute the great bulk of foreign assets in Japanese portfolios. That impression is not supported by official statistics: U.S. and Japanese balance of payments data concur that Japanese portfolio investment in the United States since 1983 has accounted for only about one-third of total Japanese foreign security purchases.

The recent pace of foreign purchases of U.S. Treasury securities is not unprecedented. For example, in 1977 and 1978 — a period of dollar weakness and heavy central bank intervention to support the dollar — foreign purchases totaled \$31½ billion and \$23½ billion respectively. As a share of annual increments in public holdings of U.S. Treasury securities, foreigners accounted for 61% and 50% in 1977 and 1978 respectively, well above their 14% share during 1984-85. At the end of September 1985 foreigners held approximately 15% of all such securities outstanding in the hands of the public, down from a peak of 28% at the end of 1978. What distinguishes the recent period is the high proportion of foreign purchases made by investors other than official monetary institutions. Thus, by the end of September 1985 nearly \$72½ billion of U.S. Treasury securities were held by nonofficial foreign investors: banks, \$19 billion; other private foreigners, \$52.2 billion; and international and regional development organizations, \$10.3 billion. These nonofficial holdings represented more than one-third of total foreign holdings, up from less than 19 billion (one-seventh of the foreign total) at the end of 1981.

There also have been large increases in foreign purchases of U.S. corporate bonds, \$32 billion in 1985, mainly in the form of bonds newly issued abroad by U.S. companies. These new issues, which climbed from a gross value of less than \$7½

billion in 1983 to an estimated \$39 billion last year, constituted more than 30% of all bonds issued by U.S. corporations during 1985, double the international share of just two years earlier. Most of these bonds were acquired initially by Western European investors, partly reflecting Europe's role as the main center for new issues. Some of the initial European purchases are resold to investors located elsewhere, including in Japan; in the first three quarters of 1985 Japanese investors bought only \$1.7 billion of U.S. corporate bonds directly.

Many U.S. companies — banks, other financial institutions, and non-financial corporations — have found it possible at times to raise funds more cheaply in overseas markets than at home. The savings arise partly from differences in perceptions of credit quality and in the taxation of income. In addition, individual issues can be tailored — for example, as to bearer form, maturity, and other specific terms — to offer special appeal to various groups of foreign investors. Interest rate and currency swaps have further enabled U.S. companies to reduce the costs and exchange risks of accessing foreign capital. Many of the record \$10 billion of foreign-currency-denominated bonds issued abroad by U.S. corporations in 1985 have been combined with currency swaps. Another factor encouraging U.S. companies to tap the Eurobond market, in preference to the U.S. market, is the greater speed with which an issue can be completed. Speed and flexibility are especially important amid market volatility and rapid innovation in financing techniques.

Portfolio investment flows in the form of stock purchases and sales have been small relative to U.S. capital flows through bond markets. Moreover, equity investment generated net outflows in 1984 and 1985

Table 8

Net foreign purchases of U.S. Treasury securities

billions of dollars
minus sign indicates outflow

	1983	1984	1985*
Official foreigners	7	5	2
Bills and certificates	6	6	-5
Marketable notes and bonds	1	1	10
Nonmarketable notes and bonds	-2	-1	-3
Other foreigners	8	22	21
Bills and certificates	-5	2	1
Marketable notes and bonds	5	21	19
Nonmarketable notes and bonds	-1	0	0
Total net foreign purchases	10	27	23
Western Europe	13	13	4
Japan	8	7	12
Canada	1	0	1
Middle East and Africa on exporters	-7	-4	-2
Other countries	6	6	4
International institutions	-1	0	-1

*January-September of an annual rate. At end-September, recorded total foreign holdings of U.S. Treasury securities were \$38 billion, of which Western Europe held \$21 billion, Japan, \$4 billion, Canada, \$1 billion, OPEC, \$10 billion, other countries, \$12 billion, and international and regional organizations, \$10 billion.

Table 9

Corporate stock flows

billions of dollars
minus sign indicates outflow

	1983	1984	1985*
Net foreign purchases of U.S. stocks	5.8	-2.8	1.5
Western Europe	4.0	-3.0	-1.7
Japan	0.8	-0.1	-0.2
Canada	1.2	1.7	0.8
Middle East and Africa on exporters	-0.8	-2.0	0.8
Other countries	0.7	0.8	1.8
Net U.S. purchases of foreign stocks	-3.8	-1.1	-4.1
Western Europe	-2.2	-1.0	-2.2
Japan	-0.9	0.4	-0.4
Canada	-0.5	0.8	1.0
Other countries	-0.2	-0.8	-0.8
Net stock flows	1.6	-4.0	-2.6

*January-September of an annual rate.

(see Table 9). European investors became net sellers of U.S. stocks from 1984 on, while Middle East and African oil-exporting countries became net sellers of U.S. equities a year earlier. Japanese investors also have been net sellers of U.S. stocks recently. U.S. investors, however, have consistently been net buyers of foreign stocks, especially in Western Europe.

Stock flows are highly correlated with the relative performance of the U.S. and European economies. The fast recovery of the U.S. economy in 1983 bolstered U.S. corporate profitability and fed a U.S. stock market boom that had begun in August 1982 with the easing of U.S. monetary policy. The strong dollar further boosted the attraction of U.S. equities by raising the relative appreciation of U.S. equities in foreign currency terms. The superior performance of the U.S. equity market faded in 1984, even after adjustment for dollar appreciation (see Chart 3); the net inflows of funds into U.S. stock markets gave way to net outflows. Outflows continued in 1985, in currency-adjusted terms. European stock market performance hardly eclipsed that of the U.S. markets.

The question of sustainability

As noted in the preceding article, the United States will continue to rely on large net inflows of foreign capital for some time to come. Reduction of the current account deficit will be gradual at best, since the combination of the federal budget deficit and private domestic investment presently far surpasses the supply of private domestic savings. Whether the requisite capital inflows will be secured and sustained without difficulty is a question occasioning intense debate. On the whole, and without minimizing the longer-

run risks involved, a fairly sanguine view appears merited for the immediate future.

The ongoing liberalization of international capital flows, combined with the widespread deregulation of financial markets all over the world, continues to broaden significantly the worldwide spectrum of investors outside the United States who are seeking to diversify their portfolios into good quality international paper. In the early 1980s, following the abolition of U.K. exchange controls in 1979, British investors became prominent internationally. More recently, Japanese investors have taken the limelight. In addition, if on a more moderate scale, other European investors are increasingly active. Meanwhile, many LDCs experience capital flight, which may be viewed as international diversification by their own investors disenchanted with opportunities at home. In each country where liberalization takes hold, the range of investors engaged as active diversifiers inexorably widens, aided by easier access to international securities markets whose offerings, in turn, are rapidly expanding in a variety of forms designed to appeal to all manner of investors.

It is hardly surprising that the number one objective of foreign investors embarking on portfolio diversification should be to build their stakes in dollar-denominated paper and U.S. assets. In fact, their acquisition of U.S. assets has not been all that large in relation to world savings. Even at last year's rate of net capital inflow, the United States absorbed only about 9% of estimated gross savings in free world economies outside the United States. Moreover, despite sizable additions to foreign holdings of assets in the United States during the past three years, these holdings remain very small in relation to foreigners' total assets. For example,

Table 9
Stock market indices
1980 = 100



Table 10
Gross foreign claims on the
United States

	1982	1985
As percentage of U.S. GDP		
Japan's claims	1.2	1.5
Germany	0.4	0.6
Canada	0.6	0.7
As percentage of Western Europe's GDP		
Japan's claims	1.5	1.8
Germany's claims	0.5	0.7
Canada	0.7	0.8

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross foreign claims on the United States, 1980-1985," *Monthly Review*, Vol. 38, No. 1, March 1986, p. 15.

*Gross foreign claims on the United States, excluding U.S. government securities held by foreigners.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross foreign claims on the United States, 1980-1985," *Monthly Review*, Vol. 38, No. 1, March 1986, p. 15.

as shown in Table 10, gross claims on the United States at the end of 1982 represented 1.2% of Western Europe's estimated total assets, financial and nonfinancial, and 2.7% of financial assets alone. By the end of 1985 these ratios had reached an estimated 1.5% for total assets and 3.6% for financial assets. For Japan the ratios are even smaller. At the end of 1982 gross claims on the United States represented only about 0.4% of Japan's total assets and 0.8% of financial assets. Three years later those ratios had risen only to 0.6% and 1.3%, respectively. Judging by these ratios, the widespread concerns about foreign holdings becoming saturated with U.S. assets appear premature. The potential for further large-scale capital flows into the United States is far from exhausted.

Regardless of the potential ability of foreigners to sustain large net U.S. financial inflows in the years ahead, prudent investors must be mindful of country and currency risk. As a country credit it is worth noting that the United States' external debt and debt-service ratios are also at "historically" moderate levels. Estimated U.S. gross external debt, as a U.S. interest-bearing liability, of foreigners, including banks, has risen but only in the extent they exceed banks' claims on foreigners. Similarly, total U.S. gross external debt, as a U.S. interest-bearing liability, has risen but only in the extent they exceed banks' claims on foreigners. Similarly, total U.S. gross external debt, as a U.S. interest-bearing liability, has risen but only in the extent they exceed banks' claims on foreigners. Similarly, total U.S. gross external debt, as a U.S. interest-bearing liability, has risen but only in the extent they exceed banks' claims on foreigners.

However, from a country risk point of view, it would be simplistic to ignore the very large foreign assets that the United States has amassed over the years. Only recently has the nation become a net

debtor in the broadest sense, with identified foreign holdings of U.S. assets exceeding U.S. assets abroad by approximately \$60 billion at the end of 1985, or less than one-sixth of last year's exports. If the United States continues to run large, albeit gradually declining, current account deficits for the remainder of the decade, net U.S. external debt could exceed \$400 billion at the end of the decade, or close to 75% of projected exports, with an accompanying rise in debt-service obligations. Such magnitudes, while striking, cannot be classed as clearly worrisome or unmanageable.

Of course, foreigners' total holdings of dollars comprise both U.S. assets and dollar-denominated claims on non-U.S. entities. In recent years foreigners' holdings of dollar assets in the United States probably have grown faster than their holdings of dollar assets outside. Indeed, instead of making dollar loans and investments elsewhere, foreigners are making them to U.S. residents. To that extent, there is no increase in the dollar constituent of foreign portfolios and many would reckon the quality of that constituent is being improved.

As long as some countries, especially Japan and several in Europe, continue to run large current account surpluses, while other countries are perceived as poor credit risks, experience capital flight, or fail to provide adequate investment opportunities for foreign investors, the money has to flow somewhere.

At present, relative to most of the rest of the world, the United States remains an attractive place to acquire assets. However, it may not be viewed forever as the "shining city on the hill." Someday, foreign and domestic perceptions of relative investment opportunities in the United States versus those in other countries, both industrial and developing, will change. For example, actual

U.S. growth and inflation performance could deteriorate, or confidence in the management and prospects for the U.S. economy could erode.

Among policymakers, a certain complacency about the sustainability of U.S. capital inflows has led to procrastination in adopting corrective measures. Yet, procrastination neglects the warnings of financial history, which is replete with instances where remote contingencies abruptly became pressing actualities — recall, for example, New York City in 1975 and Mexico in 1982. There is some recognition that adjustment, if not initiated early, is prone to occur in traumatic fashion. Recognition, however, is a far cry from action.

If a crisis is to be avoided in the future, it is vital that adjustment be pursued diligently now. The dollar's depreciation over the past year, while constructive, is only a first step on the long and difficult road to remedy global imbalances. As outlined in the preceding article, exchange rate action needs to be followed up — not least at the Tokyo summit meeting in May — with more comprehensive policy changes to boost economic growth worldwide. This is the way forward to a healthy world economy, one in which the United States would no longer depend for its growth and vitality on large-scale and perpetual infusions of foreign capital.

Statistical appendix

*For key to data in tables
see December 1985 issue.*

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Information herein is that of Morgan
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without express notice on the part of
Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.8	100.1	93.1	102.8	92.8	95.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.8	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985	127.1	92.8	115.8	76.3	85.4	107.7	82.2	88.2	104.7	89.5	103.9	75.6	109.5	95.0	95.6	83.9
1985																
January	132.0	98.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	98.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	138.9	98.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.6
June	130.5	93.2	112.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July	126.1	93.5	113.1	75.4	85.2	107.1	81.4	93.6	103.8	89.0	103.5	75.5	110.2	94.5	95.7	83.6
August	124.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September	123.2	92.1	114.9	74.0	86.3	108.6	79.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.8	91.3	123.8	71.8	87.3	109.3	80.3	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
November	117.0	90.3	129.5	67.9	87.6	109.9	80.2	89.7	105.2	90.5	105.6	72.8	113.4	96.5	94.8	83.3
December	116.1	88.8	129.2	67.8	86.3	111.3	80.2	88.4	105.8	90.4	106.7	73.0	112.3	97.3	95.0	83.1
November 15	117.6	90.3	129.9	67.3	87.8	109.9	80.3	89.1	105.0	90.5	105.5	72.7	113.4	96.4	94.8	83.4
22	116.0	90.3	130.4	68.2	87.5	109.8	80.2	89.6	105.0	90.5	105.6	72.7	113.7	96.5	94.9	83.4
29	115.5	89.8	130.9	68.2	87.8	110.3	80.2	90.4	105.3	90.4	105.9	72.8	113.5	96.7	95.2	83.2
December 8	115.8	89.0	128.7	67.4	88.1	110.7	79.9	90.7	105.7	90.3	106.2	73.1	112.3	97.0	95.4	83.1
15	116.4	89.0	129.3	68.2	88.2	111.1	80.2	88.8	105.7	90.3	106.5	73.1	112.4	97.4	95.0	83.2
22	118.3	89.9	129.5	68.0	89.2	111.5	82.3	87.4	106.0	90.4	106.8	73.1	112.2	97.4	94.5	83.1
29	118.1	88.9	129.9	68.0	89.3	111.8	83.5	87.7	106.1	90.5	107.0	72.6	112.3	97.6	94.8	83.2
1986																
January 3	115.1	88.5	129.2	67.4	88.8	112.3	80.7	86.7	106.7	90.6	107.4	73.0	112.5	97.9	94.7	82.9
10	115.9	88.4	128.9	68.2	88.7	112.2	83.8	86.8	106.4	90.8	107.4	73.2	111.7	97.7	94.8	82.8

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	99.4	99.6	100.0	93.0	100.1	103.5	103.5	99.8	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.8	100.9	104.8	102.7	100.1	97.3	98.7	102.0	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.8	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.8	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.8	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	98.5	101.1	89.3	102.7	90.9	100.0	95.0	99.4	96.5	100.1	96.9
1985	121.3	97.8	98.4	89.2	89.8	95.4	99.7	91.9	102.9	90.2	98.2	97.4	97.7	95.3	98.9	98.0
1985																
January	125.0	101.7	94.7	105.4	87.1	88.0	102.6	83.2	102.3	91.7	97.9	98.6	96.4	97.8	97.4	99.4
February	128.7	100.0	93.9	97.3	87.0	94.5	101.7	83.8	102.0	91.4	97.1	98.5	95.0	96.3	98.0	100.2
March	129.6	98.1	84.0	93.5	87.6	94.8	98.8	86.3	101.6	91.7	97.0	98.0	95.5	97.4	98.3	99.6
April	126.1	98.9	93.8	84.9	88.7	94.6	99.6	81.2	102.4	91.3	97.4	98.8	96.3	98.3	98.5	98.0
May	126.0	97.2	92.9	88.3	89.1	94.3	100.0	80.3	101.9	90.3	97.3	97.7	95.3	97.6	99.3	98.0
June	124.7	97.5	93.1	86.5	88.4	94.2	100.8	83.9	102.2	90.8	97.4	97.9	95.7	97.2	99.1	97.5
July	122.6	97.3	93.6	88.5	89.5	94.6	99.3	87.2	102.8	90.0	97.8	97.0	97.7	96.6	99.0	97.4
August	118.4	97.3	94.1	89.2	101.2	96.0	97.7	85.8	103.6	89.6	99.0	96.9	99.3	97.5	98.1	97.0
September	117.9	97.7	95.5	88.3	100.6	96.1	98.1	85.9	103.5	89.6	98.7	96.8	98.0	97.8	100.5	97.0
October	114.2	95.6	101.2	86.1	101.7	96.7	88.8	84.4	104.0	89.2	98.3	95.5	101.3	100.2	99.7	97.0
November	113.7	94.3	105.4	82.0	101.8	96.7	88.8	84.6	104.1	88.9	98.4	95.8	101.4	100.9	99.4	97.3
December	111.9	92.9	105.3	82.4	102.6	97.9	99.3	83.1	104.9	88.3	100.3	96.6	100.6	102.3	99.7	97.1

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	118.4	84.8	95.2	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	93.1	100.2
1981	105.7	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.8	101.2	99.3	101.2	102.7	102.6	99.2	104.4
1982	75.9	112.2	96.7	104.8	85.9	103.8	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	95.8	88.2	104.2	79.0	97.7	116.1	98.8	95.7	97.3	112.7	95.1	97.1	93.1	119.4	92.8
1984	80.0	89.9	89.8	99.3	81.8	105.6	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1984 December	78.7	91.1	86.9	98.7	86.1	100.1	89.0	107.1	95.7	96.8	121.3	111.9	95.5	97.4	114.1	95.5
1985																
January	79.0	94.5	88.1	98.2	87.8	99.2	90.3	108.8	100.0	97.0	120.5	118.4	95.7	98.3	109.4	98.0
February	74.8	93.7	89.8	98.7	100.2	100.7	84.4	111.5	101.2	97.9	119.4	123.5	95.7	99.5	119.4	102.3
March	70.9	96.8	92.8	96.5	100.9	99.2	94.3	112.1	99.9	96.2	118.1	123.4	95.7	98.8	115.9	101.5
April	76.2	88.9	81.4	91.4	98.9	95.8	92.4	108.7	98.8	92.1	118.4	118.7	94.4	96.1	112.5	96.3
May	70.8	94.1	83.7	88.9	97.9	95.5	93.6	108.9	98.2	91.0	118.9	117.4	93.2	95.1	104.5	94.1
June	77.0	90.9	84.2	88.6	97.4	99.2	93.4	108.1	96.0	90.0	118.4	116.9	91.4	94.5	105.2	90.0
July	87.8	78.9	76.7	83.4	83.8	97.4	92.7	105.9	95.1	87.7	116.2	112.9	87.8	91.8	99.1	86.5
August	87.8	80.8	74.1	84.7	83.0	90.8	87.3	103.3	93.5	85.9	114.4	111.9	86.2	90.2	98.4	85.2
September	87.8	80.8	75.8	85.7	82.7	94.9	93.6	105.0	93.5	85.9	114.7	111.3	86.9	90.8	101.7	86.2
October	88.1	78.4	79.0	75.0	78.8	93.8	93.7	101.7	87.7	85.8	110.4	106.0	84.3	87.6	100.6	85.1
November	84.0	80.4	79.2	73.8	77.2	94.8	92.6	100.9	95.2	80.5	109.2	112.4	83.8	87.0	101.2	84.8

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984	1985				
				Mar	Jun	Sep	Dec	Mar	Jun
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 338	2 330	2 322	2 352	2 461	2 446
On nonbanks	857	854	1 063	880	879	876	884	708	719
On banks	1 072	1 292	1 190	1 458	1 451	1 446	1 468	1 753	1 727
In dollars	1 804	1 988	1 787	1 847	1 850	1 857	1 887	1 947	1 911
In other currencies	425	458	466	491	480	465	465	514	535
Domestic currencies, on nonresidents	388	398	398	400	406	393	397	402	416
On nonbanks	128	132	136	128	140	138	137	140	143
On banks	260	266	262	272	266	255	260	262	273
In dollars	188	201	217	206	218	208	210	201	204
In other currencies	177	187	181	194	188	185	187	201	212
Total	2 294	2 544	2 651	2 739	2 736	2 715	2 749	2 863	2 862
On nonbanks	885	986	900	808	819	814	821	848	862
On banks	1 409	1 558	1 751	1 931	1 917	1 901	1 928	2 015	2 000
In dollars	1 862	1 969	2 014	2 047	2 068	2 065	2 097	2 146	2 115
In other currencies	802	889	637	652	649	640	652	715	747
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 158	2 278	2 362	2 360	2 349	2 383	2 481	2 487
To nonbanks	472	492	478	500	503	492	500	505	508
To official monetary institutions	112	81	88	80	88	94	96	96	106
To other banks	1 470	1 345	1 711	1 777	1 769	1 753	1 787	1 877	1 853
In dollars	1 529	1 741	1 849	1 882	1 900	1 912	1 949	2 001	1 964
In other currencies	415	427	432	460	459	437	434	480	503
Domestic currencies, to nonresidents	283	250	258	282	277	274	277	289	306
To nonbanks	74	72	71	71	71	72	77	78	86
To banks	199	180	187	191	206	202	200	211	220
In dollars	128	116	133	128	140	140	143	143	150
In other currencies	127	134	125	134	137	134	134	146	156
Total	2 217	2 418	2 536	2 624	2 637	2 623	2 660	2 770	2 773
To nonbanks	446	562	540	571	574	564	577	586	594
To banks and official institutions	1 771	1 856	1 996	2 053	2 063	2 059	2 083	2 184	2 179
In dollars	1 885	1 937	1 979	2 010	2 040	2 052	2 092	2 144	2 114
In other currencies	587	619	617	614	582	571	568	626	659
Net market size	1 155	1 285	1 377	1 395	1 417	1 407	1 415	1 442	1 484

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-Nov	
				Sep	Oct	Nov	1985	1984
By country of borrower								
Industrial countries	108 772	102 652	177 077	15 962	24 933	23 326	204 190	165 080
Australia	7 213	5 737	5 816	1 248	917	4 186	12 900	5 216
Austria	2 068	1 290	2 254	210	317	80	2 327	2 051
Belgium	1 528	2 168	1 847	121	57	234	2 376	1 847
Canada	15 856	8 571	13 124	236	1 063	2 317	16 807	9 024
Denmark	2 725	3 941	4 825	267	466	162	3 436	4 643
Finland	1 446	1 271	1 713	115	233	34	1 443	1 671
France	14 813	8 626	11 298	790	1 412	685	16 803	10 575
Germany	1 101	3 157	2 165	154	650	154	2 855	1 998
Greece	808	1 291	1 551	101	—	—	1 558	1 347
Ireland	1 136	1 869	1 377	339	123	326	1 697	1 312
Italy	6 667	4 876	6 933	961	742	572	9 778	6 641
Japan	8 397	14 428	17 526	1 444	2 244	1 927	20 360	16 938
Netherlands	1 000	1 213	1 973	273	61	424	2 266	1 973
New Zealand	4 786	802	3 208	—	46	857	2 406	3 168
Norway	2 601	1 969	1 324	266	150	377	3 531	1 251
Portugal	1 664	1 030	1 796	183	69	—	1 679	1 726
South Africa	1 889	1 300	1 422	—	—	—	825	1 401
Spain	2 675	4 977	4 931	249	48	20	3 417	4 757
Sweden	3 181	7 144	11 256	241	752	459	9 566	11 197
United Kingdom	2 836	2 726	8 669	4 045	2 190	4 029	23 606	8 283
United States	21 109	20 276	65 054	2 466	13 107	5 676	59 553	61 447
Other*	3 233	3 950	6 785	2 147	258	806	4 953	5 614
Developing countries	49 023	38 256	39 725	2 172	1 734	3 550	26 968	33 562
Latin American countries	29 667	15 592	17 464	140	92	1 418	7 090	13 014
Argentina	1 565	1 750	4 212	—	—	—	3 700	12
Brazil	5 972	4 475	6 546	—	—	—	—	6 649
Chile	1 124	1 405	784	—	—	1 085	1 085	784
Colombia	176	552	589	—	—	—	52	589
Mexico	9 968	5 158	8 918	—	—	49	49	3 918
Venezuela	7 241	237	—	—	—	49	49	—
Other**	2 951	2 035	1 312	140	92	237	2 156	1 062
Asian countries	11 723	12 978	15 893	1 852	903	2 132	17 358	14 820
India	858	968	345	21	27	214	718	905
Indonesia	1 622	2 363	1 624	—	—	—	451	1 924
Korea	3 277	4 381	8 261	409	509	548	5 729	6 050
Malaysia	2 672	2 197	2 055	—	41	453	2 202	1 743
Philippines	688	878	987	—	—	—	925	925
Thailand	414	747	1 351	314	98	98	1 197	1 221
Other	1 895	1 138	2 072	1 118	328	817	6 137	2 052
Middle Eastern and African countries	7 633	9 686	6 368	80	739	—	4 520	5 728
Algeria	86	1 093	821	—	—	—	1 320	821
Nigeria	2 066	2 341	985	—	—	—	—	985
Turkey	277	1 106	741	80	111	—	765	741
Other	5 204	4 244	3 821	—	528	—	2 455	3 181
Eastern European countries	1 479	1 294	3 244	52	125	302	4 525	3 164
Hungary	340	741	1 380	—	—	—	1 162	1 306
Soviet Union	1 131	53	1 051	—	—	132	1 343	1 051
Other***	0	460	807	—	199	160	2 019	807
International organizations****	11 353	16 201	13 287	1 751	1 872	1 002	18 572	11 895
By type of instrument and currency								
International bond issues	78 042	76 329	107 411	13 213	17 229	17 370	155 746	99 972
Eurobonds	51 845	48 501	79 456	10 647	12 906	13 809	126 345	73 718
U.S. dollar	43 959	38 428	63 591	7 716	7 670	10 136	91 189	58 939
German mark	2 586	3 817	4 604	606	1 483	1 853	8 339	4 394
British pound	748	1 947	3 067	394	737	630	5 241	3 759
Japanese yen	374	212	1 212	137	1 109	—	5 462	699
European composite units	1 980	2 019	1 632	746	649	649	6 675	2 835
Other	1 066	2 078	3 620	569	1 600	712	9 679	2 892
Foreign bonds	26 937	27 828	27 955	2 566	4 323	3 475	29 101	26 254
U.S. dollar	5 946	4 445	5 487	145	364	650	4 655	4 867
German mark	2 852	2 671	2 243	121	—	248	1 620	1 689
British pound	1 214	811	1 292	101	—	284	958	1 292
Swiss franc	11 432	14 209	12 626	1 075	2 790	1 686	13 618	12 247
Japanese yen	3 418	3 772	4 626	870	912	184	6 146	4 403
Other	1 438	1 730	1 677	295	52	423	2 204	1 536
International bank credits	92 585	82 074	125 922	6 773	11 436	10 810	100 509	113 729
Eurocurrency credits	85 016	74 220	112 605	6 331	10 923	9 734	94 376	101 047
Foreign credits	7 570	7 854	13 317	442	513	1 077	6 132	12 682
Total	170 627	158 403	233 333	19 937	28 664	28 180	256 255	213 701

*Includes multinational organizations

**Includes unaffiliated

***Includes COMECON institutions

****Includes regional development organizations

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Eurodollar										
overnight	9.25	9.50	8.83	8.02	8.50	7.56	8.38	7.88	7.88	12.25
one month	9.13	9.69	8.38	7.63	7.94	7.94	7.94	7.88	8.06	8.00
three months	9.19	9.81	8.63	7.73	8.19	8.00	8.06	7.94	8.06	7.88
six months	9.50	10.38	8.12	7.88	8.44	8.13	8.31	8.00	8.06	7.88
twelve months	9.63	10.38	9.81	8.23	8.88	8.56	8.56	8.25	8.17	7.94
Euro-Canadian dollar										
one month	10.00	9.13	9.88	9.00	8.69	8.75	8.38	8.31	8.88	9.00
three months	10.00	9.50	10.81	9.38	8.94	8.94	8.69	8.38	8.88	9.00
six months	10.12	9.75	10.06	8.50	9.31	9.19	9.06	8.56	8.94	9.00
twelve months	10.25	10.00	10.44	9.33	9.50	9.50	9.38	8.94	9.06	9.00
Euro-French franc										
one month	23.00	12.12	12.63	12.50	14.00	9.88	9.63	9.19	9.63	12.50
three months	24.00	12.12	12.29	12.62	14.00	12.63	10.50	9.63	9.75	13.00
six months	22.00	12.31	11.20	10.75	13.75	11.50	10.88	10.63	10.25	13.13
twelve months	19.75	12.62	11.88	11.25	13.00	11.75	11.25	10.88	10.25	12.25
Euromark										
one month	5.88	9.25	8.88	8.44	4.63	4.50	4.44	4.69	4.69	4.75
three months	5.88	9.38	8.10	8.44	4.81	4.50	4.50	4.63	4.69	4.75
six months	5.84	8.55	7.98	8.40	4.94	4.40	4.63	4.94	4.75	4.75
twelve months	5.06	8.38	8.85	5.80	5.80	4.63	4.75	5.08	4.88	4.81
Euro-Dutch guilder										
one month	5.12	5.81	5.99	5.75	6.05	5.75	5.69	6.13	5.75	5.75
three months	5.12	6.00	4.20	6.48	6.00	5.75	5.69	6.19	5.75	5.75
six months	5.28	6.25	5.81	6.18	6.00	5.88	5.69	6.19	5.88	5.81
twelve months	5.83	6.38	5.34	6.88	6.10	5.89	5.69	6.25	5.84	5.88
Euro-Swiss franc										
one month	2.80	5.28	4.84	5.12	4.38	4.44	4.19	3.88	4.00	3.88
three months	3.25	5.75	4.80	5.75	4.50	4.56	4.50	4.44	4.00	4.00
six months	3.44	5.34	4.80	5.00	4.63	4.69	4.63	4.56	4.00	4.00
twelve months	3.44	5.34	4.80	5.00	4.63	4.63	4.63	4.56	4.06	4.06
Eurosterling										
one month	10.28	8.12	8.00	12.00	11.50	11.88	11.63	11.56	11.63	11.69
three months	10.44	8.71	9.88	11.18	11.19	11.63	11.50	11.50	11.56	11.81
six months	10.21	8.50	10.00	11.00	11.00	11.13	11.19	11.44	11.31	11.81
twelve months	10.11	8.81	10.18	11.12	10.86	11.06	11.00	11.19	11.13	11.69
Euroyen										
one month	6.75	8.25	8.12	6.75	6.25	6.44	6.75	7.50	8.19	7.13
three months	6.75	8.25	8.19	6.75	6.31	6.35	6.38	7.75	7.69	6.58
six months	7.00	8.58	8.12	6.75	6.31	6.31	6.38	7.38	7.19	6.50
twelve months	6.81	8.88	8.12	6.88	6.25	6.31	6.38	7.06	6.94	6.38
European currency unit										
one month	12.44	8.87	8.28	8.38	8.80	8.00	8.31	8.31	8.31	9.75
three months	12.12	8.15	8.78	8.58	8.80	8.50	8.50	8.50	8.50	9.75
six months	12.34	8.44	8.80	8.88	8.63	8.75	8.75	8.81	8.69	9.75
twelve months	11.18	8.88	8.80	8.88	8.75	8.88	8.88	8.75	8.75	9.19

International bond yields

average yield of several actively traded high quality issues with a maturity of 7 to 12 years at or near end of month

	1983	1984	1985							
	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States companies										
Eurodollar	11.08	11.28	11.24	11.08	11.39	10.65	10.37	10.53	10.37	10.04
Euromark	7.34	8.90	7.71	7.30	8.81	8.74	8.67	8.74	7.13	6.95
Swiss franc	8.82	8.73	8.74	5.87	5.80	5.69	5.60	5.62	5.66	5.59
European governments										
Eurodollar	12.60	12.34	11.07	11.22	11.11	11.31	11.11	11.18	11.04	10.77
Euromark	8.10	7.93	7.68	7.87	7.38	7.17	6.89	6.96	7.23	7.14
Swiss franc	5.83	5.24	5.21	5.25	5.17	5.16	5.09	5.01	5.02	4.99
European currency unit	11.77	10.64	10.38	10.10	10.11	9.89	10.01	10.14	10.42	10.20

Central bank discount rates

at or near end of month

	1982	1983	1984	1985						Current	
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec		Jan 14 1986	effective since
United States	8.50	8.50	8.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	May 17, 85
Canada	10.05	9.96	10.09	9.20	9.00	8.78	9.10	9.49	10.21	Jan 9, 86	
Austria	4.75	3.75	4.50	4.00	4.00	4.00	4.00	4.00	4.00	Aug 19, 85	
Belgium	11.50	10.00	11.00	10.00	9.50	9.00	8.75	9.75	9.75	Dec 23, 85	
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83	
Finland	8.50	8.50	9.50	9.00	9.00	9.00	9.00	9.00	8.50	Jan 1, 86	
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77	
Germany	5.00	4.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	Aug 16, 85	
Ireland	14.00	12.25	14.00	11.25	10.25	10.25	10.25	10.25	11.75	Jan 5, 86	
Italy	16.00	17.00	16.50	15.50	15.50	15.50	15.00	15.00	15.00	Nov 8, 85	
Netherlands	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Aug 16, 85	
Norway	9.00	8.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83	
Portugal	19.00	25.00	25.00	23.00	23.00	23.00	19.00	19.00	19.00	Nov 27, 85	
Spain	8.00	8.00	8.30	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77	
Sweden	10.00	8.50	9.50	10.50	10.50	10.50	10.50	10.50	10.50	Jul 12, 85	
Switzerland	8.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83	
United Kingdom	12.00	8.00	9.75	11.31	11.31	11.31	11.31	11.31	12.31	Jan 8, 86	
Japan	8.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83	
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81	
South Africa	15.45	16.50	21.75	16.50	15.50	14.50	13.50	13.50	13.50	Nov 20, 85	
Argentina*	10.00	15.10	16.19	6.00	5.50	5.00	5.00	5.00	n.a.	Oct, 85	
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82	
Philippines	6.00	8.00	12.11	12.30	11.91	n.a.	n.a.	n.a.	n.a.	Sep, 85	
Singapore	7.00	7.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul, 85	
Thailand	10.50	13.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85	
Venezuela	13.00	11.00	11.00	9.00	9.00	8.00	8.00	8.00	8.00	Oct 16, 85	

Day-to-day money rates

monthly averages

	1982	1983	1984	1985							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	8.95	9.47	8.38	8.27	7.97	7.51	7.86	7.90	7.92	7.99	8.05
Canada	10.63	8.78	10.60	10.25	8.75	8.58	9.27	9.97	8.53	8.58	8.81
Austria	6.00	5.75	7.92	6.88	6.13	6.13	6.13	5.98	4.88	5.50	6.75
Belgium	8.28	7.33	8.12	9.45	8.64	8.00	8.97	8.00	7.91	8.23	7.93
Finland	11.50	16.70	15.07	13.96	13.80	13.77	13.80	13.43	13.11	12.78	12.37
France	12.88	12.27	10.98	10.46	10.17	10.22	9.86	9.68	9.57	9.34	8.98
Germany	6.15	6.61	5.62	5.70	5.67	5.52	5.13	4.77	4.59	4.54	4.63
Ireland	14.34	12.19	14.50	13.83	12.63	12.00	11.50	10.75	9.50	9.38	8.50
Italy	19.00	17.66	17.29	15.73	15.46	15.20	15.00	14.53	14.38	14.35	14.59
Netherlands	5.31	6.54	5.60	6.14	7.16	6.81	6.63	5.92	5.74	5.87	5.78
Norway	11.00	12.33	12.90	13.40	12.20	13.10	12.30	12.70	11.80	12.25	12.50
Spain	20.19	16.77	12.11	10.42	12.53	13.93	12.39	12.99	10.86	8.99	10.49
Sweden	9.31	11.62	11.80	13.43	14.69	16.00	15.39	15.00	15.00	14.77	13.47
Switzerland	1.25	1.88	1.60	2.00	2.25	2.00	2.00	2.50	2.00	1.25	0.75
United Kingdom	6.79	7.78	6.31	12.38	11.25	10.17	12.45	11.25	9.69	9.66	14.72
Australia	11.04	4.58	10.98	14.28	14.99	15.07	14.58	15.29	15.83	15.84	17.69
Japan	6.92	6.44	6.41	6.07	6.01	6.13	6.19	6.17	6.41	6.56	7.40
South Africa	14.15	16.06	21.19	21.50	19.81	18.60	17.50	16.25	15.20	14.90	13.13
Argentina*	12.77	14.65	17.75	23.74	32.00	24.57	5.30	5.00	5.00	4.50	4.50
Brazil	150.42	184.69	272.02	346.05	302.31	289.40	214.79	196.90	230.50	237.20	n.a.
Hong Kong	9.13	13.90	6.80	7.21	5.88	6.35	4.95	2.74	4.71	4.38	5.43
Korea	13.84	11.40	10.00	9.80	9.50	9.00	9.50	9.70	9.40	9.60	9.00
Philippines	16.12	31.13	15.22	23.97	25.12	29.95	20.36	18.39	10.25	n.a.	n.a.
Singapore	11.45	7.05	6.01	4.68	5.75	5.18	4.94	4.37	5.34	5.79	4.49
Taiwan	9.94	7.85	8.07	6.45	6.99	6.47	6.79	8.33	6.81	5.30	5.06

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	8.15	9.28	7.99	8.08	7.63	7.05	7.40	7.36	7.13	7.44	7.40
Canada	9.60	9.71	9.84	9.77	8.51	9.33	9.06	8.95	8.75	8.53	8.85
Belgium	12.42	11.00	10.90	9.63	9.13	9.02	9.63	9.63	9.28	8.92	8.72
Ireland	15.25	12.01	15.10	13.43	12.21	11.29	10.38	10.43	9.89	10.14	10.41
Italy	15.11	16.95	14.69	14.31	14.22	14.18	14.08	13.99	13.37	12.90	12.76
Netherlands	5.63	5.63	5.88	7.00	6.75	6.75	6.25	5.75	5.75	6.19	5.88
Spain	15.28	14.46	12.00	11.76	12.51	14.00	13.29	12.45	10.66	9.44	9.25
Sweden	12.90	11.75	11.83	14.47	16.48	16.64	15.04	15.00	15.33	14.37	13.28
United Kingdom	9.96	9.04	9.33	12.26	12.16	12.33	11.30	11.31	11.38	11.45	11.33
Australia	9.39	8.54	12.27	14.95	14.50	14.02	14.78	16.17	16.16	16.36	18.45
Japan	3.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	7.80	13.50	23.40	21.00	21.00	24.00	n.a.	n.a.	n.a.	n.a.
South Africa	14.62	15.43	21.94	21.32	18.78	16.00	16.45	15.72	15.22	13.87	12.90
Brazil	175.40	176.15	273.03	273.03	215.12	209.68	223.13	258.13	266.85	231.35	n.a.
Mexico	57.44	55.78	48.67	57.69	63.34	62.47	74.99	70.56	n.a.	66.24	70.70
Philippines	14.54	15.99	47.14	34.22	35.32	33.43	29.59	21.60	18.01	n.a.	n.a.
Singapore	2.74	2.59	2.91	2.94	3.07	2.79	2.68	2.79	2.97	2.92	2.89

Representative money market rates

bond equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	8.34	8.86	8.54	8.36	7.70	7.70	7.85	7.91	7.89	8.07	8.01
Canada	9.35	9.87	10.10	10.20	9.80	9.70	9.25	9.15	8.95	8.70	9.25
Belgium	12.35	11.00	10.70	10.10	9.25	8.90	8.90	9.60	9.35	8.85	8.60
France	12.75	12.19	13.63	10.31	10.25	10.25	10.00	9.75	9.44	9.25	8.87
Germany	6.20	6.30	6.75	5.90	5.80	5.80	5.00	4.65	4.65	4.95	4.80
Ireland	15.75	12.18	16.13	12.75	12.75	11.69	10.50	10.38	10.25	10.25	10.50
Italy	18.00	17.88	16.63	15.00	14.88	14.75	14.38	14.38	14.38	15.00	14.63
Netherlands	5.25	6.00	5.75	7.11	6.84	6.69	6.13	5.75	5.81	6.25	5.94
Portugal	15.05	24.11	24.57	24.52	24.42	24.57	24.85	22.63	22.69	22.69	22.49
Spain	16.87	18.93	12.16	12.61	12.70	14.86	13.80	13.03	11.17	10.18	10.13
Switzerland	3.68	3.88	5.00	5.28	5.38	5.38	5.38	4.63	4.69	4.69	4.13
United Kingdom	10.50	9.31	9.88	12.66	12.44	12.44	11.13	11.56	11.50	11.50	11.50
Australia	10.65	8.50	12.90	15.80	15.66	16.50	15.20	16.70	16.50	16.35	18.65
Japan	8.98	8.45	8.93	6.26	6.26	6.30	6.29	6.30	6.33	7.11	7.55
New Zealand	18.75	12.18	15.25	23.50	23.20	24.00	25.10	26.75	27.20	24.95	20.50
South Africa	15.25	19.12	22.78	22.09	19.35	17.35	17.60	16.50	15.25	14.03	13.20
Chile	65.00	20.88	20.68	38.93	32.85	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	9.25	14.88	8.25	7.94	6.88	6.91	5.31	6.00	5.63	6.00	6.50
Indonesia	18.50	19.50	19.00	19.00	18.00	17.50	15.50	15.50	15.00	14.50	14.50
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	9.80	10.30	9.50	12.00	7.75	7.00	8.50	7.50	7.25	8.25
Philippines	15.98	15.81	33.21	23.43	26.77	24.90	21.25	20.48	16.56	n.a.	n.a.
Singapore	8.69	8.44	7.00	5.31	5.25	5.31	5.13	4.56	6.38	5.81	5.44
Taiwan	n.a.	8.07	7.85	6.39	6.59	6.49	6.70	7.31	5.76	5.13	4.51
Thailand	12.25	16.00	12.00	16.00	14.50	13.00	12.00	12.00	12.00	13.50	15.00

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	8.25	9.70	8.35	8.25	7.50	7.57	7.95	7.88	7.80	7.80	7.88
Canada	9.85	9.82	10.05	10.15	9.75	9.65	9.20	9.10	8.90	8.65	9.20
Austria	8.25	6.50	7.50	6.88	6.50	6.50	6.38	5.75	5.25	5.63	6.12
Belgium	12.25	11.25	10.63	9.50	9.00	8.75	9.50	9.31	9.13	8.75	8.50
Denmark	9.00	6.00	6.00	6.00	6.00	6.00	5.00	5.00	7.00	7.00	7.00
Finland	4.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
France	8.24	7.68	7.04	6.82	6.57	6.69	n.a.	6.49	n.a.	6.27	6.07
Germany	6.00	5.90	5.25	5.45	5.30	5.15	4.45	4.25	4.25	4.55	4.45
Ireland	15.25	11.75	14.63	12.00	11.75	11.25	10.00	10.00	9.50	9.88	10.25
Italy	13.25	13.25	11.64	10.98	10.88	10.88	10.88	10.88	n.a.	n.a.	n.a.
Netherlands	5.38	6.12	5.69	7.00	6.81	6.63	6.00	5.69	5.69	6.19	5.81
Norway	13.50	12.75	12.75	12.75	12.40	12.25	12.25	12.00	12.00	12.00	12.00
Portugal	15.00	21.50	27.00	27.00	27.00	27.00	27.00	24.50	24.50	24.50	20.50
Spain	12.53	12.62	11.64	10.61	10.83	10.55	10.55	10.49	10.42	10.20	n.a.
Sweden	12.15	11.70	11.45	13.77	16.13	16.57	14.95	14.61	13.90	14.08	12.71
Switzerland	3.30	3.50	4.50	4.88	4.88	5.13	4.63	4.38	4.25	4.50	3.75
United Kingdom	12.21	9.31	9.88	12.10	12.38	12.31	11.06	11.31	11.28	11.44	11.38
Australia	10.25	10.40	12.75	15.17	14.91	15.10	14.80	15.89	16.76	16.20	n.a.
Japan	7.00	6.50	6.38	6.36	6.36	6.30	6.35	6.41	6.43	7.32	7.93
New Zealand	16.50	11.50	15.25	23.00	23.50	23.00	24.50	25.00	23.00	24.50	21.25
South Africa	15.25	20.13	22.88	22.25	20.25	18.00	18.50	17.25	16.00	15.00	13.20
Argentina*	8.50	14.50	31.23	29.59	32.88	7.00	7.00	7.00	5.30	4.80	5.25
Brazil	21.00	23.00	27.00	25.50	25.00	24.00	23.00	21.00	19.00	18.00	n.a.
Chile	47.09	20.57	20.68	38.61	32.85	28.80	29.20	n.a.	15.08	16.79	18.25
Hong Kong	9.75	14.88	8.25	7.94	6.88	6.81	6.31	6.00	5.63	6.00	6.50
Korea	7.60	7.80	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	6.40	7.75	9.58	9.43	9.67	8.17	8.17	8.17	8.17	7.00	7.00
Mexico	52.54	57.15	47.48	64.50	58.90	59.50	64.35	65.20	69.80	66.80	69.60
Philippines	14.10	14.06	31.01	23.88	21.40	25.95	18.60	17.35	14.26	n.a.	n.a.
Singapore	8.25	7.44	8.13	5.01	4.89	5.07	4.88	4.51	6.38	5.81	5.01
Taiwan	7.50	7.00	6.50	6.25	6.25	6.00	6.00	6.00	5.75	5.75	5.25
Thailand	10.00	10.00	13.00	16.00	11.50	13.50	10.50	10.00	10.50	10.50	10.50
Venezuela	15.50	12.00	12.50	11.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	10.61	12.00	11.61	11.64	10.71	10.62	10.91	10.63	10.67	10.62	10.06
Canada	11.69	12.02	11.66	11.50	10.76	10.89	10.91	10.79	10.96	10.72	10.34
Austria	8.81	6.02	9.04	8.06	8.01	7.87	7.77	7.58	7.34	7.38	7.55
Belgium	12.66	11.89	11.66	11.49	10.78	10.34	10.50	10.59	10.42	9.65	9.90
Denmark	20.14	12.95	14.60	12.87	12.26	12.16	10.76	10.72	11.23	10.79	10.50
Finland	10.64	11.16	10.73	10.34	10.45	10.46	10.48	10.42	10.35	10.36	10.50
France	16.40	13.96	12.70	11.98	11.72	12.12	11.87	11.96	11.97	10.73	n.a.
Germany	7.90	8.38	7.17	7.10	7.10	7.02	6.88	6.52	6.55	6.90	6.91
Ireland	14.54	14.25	14.90	13.08	13.17	12.71	11.20	11.74	11.92	11.84	12.10
Italy	19.70	17.69	14.52	13.53	13.85	13.87	14.08	14.04	13.74	13.75	14.49
Netherlands	8.16	8.59	7.72	7.73	7.58	7.39	7.23	6.92	6.87	7.03	7.01
Norway	13.92	12.50	12.00	12.38	12.38	12.70	12.70	12.70	12.70	12.70	12.70
Portugal	16.63	22.11	22.23	20.84	21.67	22.23	20.34	20.14	n.a.	n.a.	n.a.
Spain	15.46	17.28	13.93	13.40	13.56	13.79	14.48	14.37	13.92	12.58	12.12
Sweden	13.01	13.30	12.64	12.42	13.75	13.46	12.98	13.22	13.54	13.40	13.10
Switzerland	4.23	4.53	4.60	4.75	4.74	4.78	4.80	4.69	4.66	4.58	4.62
United Kingdom	10.62	9.94	10.25	10.42	10.51	10.45	10.16	10.22	10.15	10.16	10.17
Australia	13.00	13.65	13.50	14.00	13.75	13.50	13.30	13.95	13.60	14.55	14.99
Japan	7.96	7.45	6.38	6.85	6.60	6.53	6.38	6.48	6.36	6.55	6.84
New Zealand	12.84	10.50	16.80	17.95	19.64	17.33	17.86	17.70	18.35	18.10	n.a.
South Africa	11.31	13.64	16.55	16.40	15.85	15.15	15.30	16.20	16.65	17.50	17.50
Philippines	13.64	14.47	18.54	12.75	n.a.	17.00	13.29	n.a.	n.a.	n.a.	n.a.
Venezuela	15.00	13.50	14.00	12.90	12.50	12.50	12.00	12.00	12.00	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	11.50	11.00	10.75	10.50	10.00	9.50	9.50	9.50	9.50	9.50	9.50
Canada	12.50	11.00	11.25	10.75	10.50	10.50	10.50	10.25	10.25	10.00	10.00
Austria	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.00	9.00
Belgium	15.50	13.75	14.00	13.50	12.50	12.00	12.00	12.50	12.00	11.50	11.00
Denmark	14.00	10.00	10.50	10.50	10.50	10.50	9.50	9.50	8.50	8.50	8.50
Finland	8.95	10.18	10.68	10.38	10.37	10.37	10.40	10.43	10.42	10.43	n.a.
France	12.25	12.25	12.00	11.50	11.25	11.25	10.85	10.85	10.85	10.85	10.60
Germany	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.25	7.25	7.25	7.25
Ireland	16.50	13.75	15.75	14.50	14.50	14.00	13.25	13.50	12.50	12.50	12.50
Italy	20.75	16.75	18.00	17.00	17.00	17.00	17.00	17.00	17.00	16.50	16.00
Netherlands	6.25	7.00	6.25	7.13	7.75	7.75	7.25	6.25	6.25	6.38	6.50
Norway	14.50	13.50	13.00	12.50	12.90	12.70	12.90	13.10	12.70	12.90	12.80
Portugal	23.50	30.00	29.00	29.00	29.00	29.00	29.00	26.50	26.50	26.50	22.50
Spain	16.30	17.31	15.84	15.44	15.65	15.53	15.53	15.49	15.36	14.98	14.80
Sweden	15.00	13.50	14.50	14.50	16.24	16.25	15.25	15.25	15.25	14.75	14.75
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	10.00	9.00	8.50	12.50	12.50	12.50	11.50	11.50	11.50	11.50	11.50
Australia	15.00	12.75	14.00	16.75	17.00	17.75	17.75	17.75	18.50	18.50	19.25
Japan	6.28	5.89	5.70	5.69	5.69	5.69	5.69	5.69	5.70	5.70	5.70
New Zealand	13.00	11.00	14.00	n.a.	25.00	25.00	24.00	22.00	23.00	22.50	21.50
South Africa	18.00	20.00	24.00	25.00	23.00	22.00	21.00	21.00	19.50	17.50	16.50
Argentina*	8.00	15.00	32.25	32.47	37.81	8.50	8.50	9.00	5.75	5.60	7.25
Brazil	23.81	24.00	31.00	38.00	25.50	25.00	24.56	21.00	19.00	19.00	n.a.
Chile	64.11	30.30	60.82	51.16	46.15	47.28	51.47	n.a.	35.53	32.36	31.88
Hong Kong	10.50	13.50	11.00	9.00	8.50	8.00	8.00	7.00	7.00	7.00	7.00
Indonesia	22.50	19.75	23.50	23.00	22.00	21.50	20.75	20.25	19.50	19.00	19.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia*	12.50	11.00	12.00	12.00	12.00	11.00	11.00	11.00	11.00	10.50	10.50
Mexico	46.12	66.44	47.54	51.93	53.78	54.92	57.60	59.06	60.98	62.29	63.39
Philippines	18.00	18.00	44.00	34.00	32.00	32.00	27.00	23.00	n.a.	n.a.	15.50
Singapore	9.33	8.38	9.40	8.72	8.48	8.28	8.03	7.28	7.20	7.23	7.20
Taiwan	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	9.75	9.75	9.50
Thailand	16.00	15.00	18.50	17.50	18.50	18.50	18.50	18.50	18.50	18.50	15.50
Venezuela	17.00	16.00	16.00	15.00	14.00	14.00	14.00	14.00	14.00	14.00	13.00

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	11.75	12.63	12.25	12.58	11.25	11.25	11.65	11.38	11.50	11.25	10.75
Canada	12.74	12.69	12.42	12.24	11.34	11.27	11.62	11.49	11.56	11.26	10.98
France	15.66	14.75	12.94	12.40	12.20	12.19	12.06	12.17	12.36	12.03	11.84
Germany	8.20	8.30	7.20	7.30	7.20	7.10	7.10	6.90	6.80	6.90	7.00
Netherlands	7.80	6.51	7.51	7.87	7.62	7.41	7.28	7.28	n.a.	n.a.	n.a.
Norway	14.13	13.25	12.75	13.25	13.25	13.50	13.50	13.50	13.50	13.50	13.50
Spain	17.10	19.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	13.37	12.21	12.13	13.19	13.60	13.75	13.25	13.25	13.50	14.00	13.50
Switzerland	5.80	4.92	5.09	5.24	5.18	5.15	5.09	5.05	5.02	4.99	4.99
United Kingdom	12.34	11.57	11.64	11.56	11.61	11.54	11.32	11.22	11.17	11.14	11.16
Japan	7.55	7.09	6.21	6.67	6.70	6.63	6.55	6.46	6.36	6.26	7.56
Korea	16.00	14.20	15.00	14.60	14.70	14.30	14.10	13.90	13.80	13.70	13.60
Venezuela	18.00	18.00	18.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00

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Table 1

Trade balances

cumulative, billions of dollars

	1980-82	1983-85
Argentina	2.1	12.5
Bolivia	0.9	0.6
Brazil	-0.8	32.0
Chile	-3.4	2.0
Colombia	-4.1	-2.3
Ecuador	0.6	3.0
Mexico	-1.4	34.3
Peru	-0.1	2.3
Uruguay	-1.0	0.6
Venezuela	18.8	24.4
10 major Latin American debtors	11.5	109.3

The Baker initiative: the perspective of the banks

Crumbling oil prices, while good news for the world at large, leave the economic and financial plans of many oil producers — particularly Mexico — in disarray. The general character of the new difficulties facing Mexico is well known, as are its long-standing structural deficiencies. The new problems redouble the urgency for action to implement U.S. Treasury Secretary James Baker's four-month-old initiative on LDC debt. The initiative, focused on ten major debtor countries in Latin America and five elsewhere, calls for a new emphasis on policy reforms to speed their economic growth and a stepped-up flow of private and official external capital to support their development. Secretary Baker's initiative already was timely when launched last October. His fresh approach is even more relevant today.

The debt strategy pursued the past three years reached an impasse in 1985. Still, its achievements should not be belittled. The ten principal borrowers in Latin America, for example, collectively earned trade surpluses of over \$100 billion during 1983-85 and greatly reduced their current account deficits (see Tables 1 and 2). Their commercial bank creditors gained a breathing

space to build up their capital base and thereby lessen their own vulnerability to LDC credit problems — even while continuing to provide new money on a modest scale. In the three years ended June 1985, large U.S. money-center banks boosted their primary capital at a 13% annual average rate, versus a 3% growth rate in their claims on the ten major Latin American borrowers. As a result, in relation to capital, these banks' exposure to the ten is no higher today than in 1977 (see Chart 1). Banks in Japan, Canada, and Europe likewise have been moving to fortify their balance sheets: their collective exposure to problem country borrowers is far greater than that of the U.S. banks (see Table 3), notwithstanding popular misconceptions to the contrary.

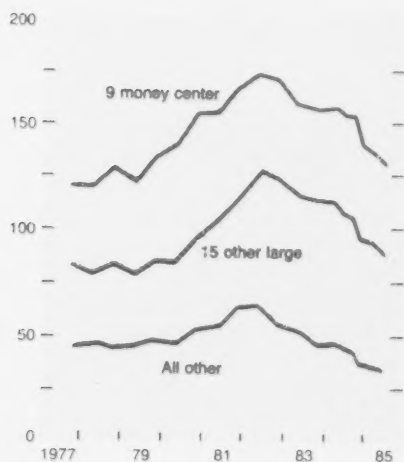
Broadly, the debt strategy has taken the classical approach to balance of payments adjustment, seeking to strengthen export performance and curtail imports through monetary and fiscal action including realistic interest and exchange rate policies. Previous experience with the classical prescription in Europe, and in some countries in Latin America itself, suggested that trade performance should be sufficiently improved after two or three years to

Table 2
Current account balances
cumulative, billions of dollars

	1980-82	1983-85
Argentina	-11.8	-6.2
Bolivia	-0.5	-0.7
Brazil	-40.9	-8.0
Chile	-9.0	-4.6
Colombia	-5.1	-6.4
Ecuador	-2.8	-0.6
Mexico	-28.0	9.7
Peru	-3.3	-1.4
Uruguay	-1.7	-0.5
Venezuela	4.5	13.7
10 major Latin American debtors	-96.4	-5.0

Chart 1

U.S. banks' claims on 10 major Latin American debtor countries as percent of primary capital



restore normal credit flows, promote repatriation of flight capital, repay exceptional financing, and allow resumption of sound economic growth.

In varying degrees, the major debtor countries have traveled the classical path the past three years. Most have succeeded in channeling more domestic resources into production for export. In volume terms their exports have risen considerably — though hardly spectacularly — since the global recession of 1981-82 (see Table 4). They have been fairly successful in boosting manufactured and other nontraditional exports (see Table 5), as well as raw materials. Unfortunately, the debtors on average have garnered no increase in the dollar value of their export earnings. In fact, in 1985 those earnings actually fell below the 1984 results. The debtors' trade balance improvement has therefore required extreme shrinkage of imports (see Table 6).

Three main factors account for the export slippage. First, several of the debtor countries have failed to maintain adequately competitive exchange rates on a consistent basis. Second, whereas 1984 was a vintage year for economic growth in the United States, 1985 saw the growth of industrial countries as a whole cut nearly in half, to well under 3%. Japan and Europe did nothing to boost their domestic growth to offset the inevitable slowing in U.S. economic expansion. Meanwhile, protectionist practices and pressures grew more pervasive. Thus, Latin America has been facing difficult conditions in its key export markets, with no guarantee that those markets will expand more vigorously in 1986. By themselves, lower oil prices should raise industrial-country growth, by about 0.5% of GNP, but it remains to be seen how policymakers will respond. Third, Latin America's export prices have continued to fall. Cumulatively, they

have dropped substantially since 1981, especially for primary commodities (see Chart 2). Only during the past several months have most commodity prices started to recover, if hesitantly. In general, apart from the special case of coffee, the price recovery has been surprisingly feeble to date in light of the dollar's 20% effective depreciation since last February. For oil exporters there is, of course, no cheer in sight.

The classical adjustment strategy has proved wanting, or at best incomplete, in several dimensions. Few of the debtors have made much headway in stabilizing their internal economies. Progress in curbing budget imbalances and public-sector excesses has been spotty. Inflation remains a major worry: in both Brazil and Mexico it threatens to spiral further out of control (see Table 7); and the remarkable short-run success of Argentina's experiment has yet to be tested over the long haul. Most troubling, per capita GNP remains far below precrisis levels almost everywhere in Latin America (see Table 8). Given the shift of output into trade surpluses and the rising share of domestic savings going into interest payments on external debt, living standards and domestic investment have fallen still more. Despite Brazil's strong economic growth in 1985, hopes are slim for swift recovery in the region generally.

It can be little wonder that confidence continues at a low ebb among residents of the troubled debtors. The condition provokes capital flight and thereby weakens their overall balance of payments positions despite progress on current account. Restoration of a comfortable official reserve position once was expected to engender both confidence and reflows of flight capital. However, recovery of a reserve cushion in some cases

Table 3

External debt

as of mid-1985

billions of dollars, except as noted

	Total	Owed to banks*	Debt to U.S. banks as % of debt to banks**
Argentina	49.0	26.6	30.4
Bolivia	4.2	0.7	23.2
Brazil	103.9	77.9	30.5
Chile	21.1	13.4	49.4
Colombia	13.1	6.9	38.5
Ecuador	7.7	5.0	43.7
Mexico	96.7	71.8	36.0
Peru	14.0	5.5	38.2
Uruguay	4.7	2.0	50.1
Venezuela	31.9	25.1	42.2
10 major Latin American debtors	346.3	235.0	35.3

*Cross-border claims reported by banks in the BIS/OECD reporting area according to residence of borrower. Claims include those guaranteed or insured by residents of other countries, including official export credit agencies.

**Based on data for U.S. banks' cross-border and non-local-currency claims according to residence of borrower. These claims are net of charge-offs and are not adjusted for guarantees or other risk transfers.

seems to have led straight back to unrealistic interest and exchange rates — notorious instigators of capital flight and confidence erosion.

Accordingly, the international spotlight increasingly is trained on the continuing exodus of capital as both *symptom* and *source* of the debt problem. Capital flight often is presumed furtive, disreputable, and illegal. In fact, much occurs through legitimate channels that permit residents to acquire foreign exchange and hold overseas assets. The proof of successful adjustment would be that capital flight turns around. But no reversal is in sight for the major Latin American debtors.

In fact, most of the new money loaned to Latin America in the past three years — by private creditors, involuntarily — can be viewed as having facilitated additional capital flight (see Table 9). In the three years ended last September, non-bank residents of the ten debtor countries added \$15 billion to their identifiable bank deposits abroad, bringing the total to \$55 billion. Even this probably represented only about half the overall amount, other than official reserves, invested overseas by residents of debtor countries — in bank deposits, securities, real estate, and direct investment.

When their own residents are unwilling to repatriate capital or even earnings from abroad to invest at home, the debtor countries cannot expect greater willingness of their foreign creditors. Foreign creditors are unwilling to put up fresh funds, unless and until they can be confident that their resources are being put to work productively. Yet, without stepped-up investment, the debtors' hopes for adequate economic growth will go unmet, undermining confidence still further.

The Baker initiative seeks to break the impasse by encouraging the debtors to implement growth-oriented structural reforms. The World

Bank is to be at center stage of the international effort. During the next three years the Bank and the Inter-American Development Bank, together, are to boost their loan disbursements by up to 50%, or \$3 billion per annum, over current levels to those major debtors that adopt appropriate reforms. The Baker initiative recognizes not only the crucial link between economic growth and the mobilization of domestic and foreign capital for domestic investment, but also the link between the borrowers' policies and institutional arrangements on the one hand, and investment and growth on the other.

Stabilization and prudent demand management at the macro level — the customary focus of IMF adjustment programs — certainly are necessary for sustainable economic growth. But they are not sufficient conditions, especially now that the old model for development based on public spending and large-scale foreign borrowing is no longer viable. Under the new strategy for growth, the borrowing countries have much to work for at the micro level: efficient management and an end to dissavings in the public sector and liberation of the private sector from distorting price, wage, trade, exchange, and credit controls. In addition, foreign trade regimes should be freed of bias against exports. A positive environment should be created for foreign direct investors, to better realize their potential contribution to capital and technology transfer and the development of economies competitive in the global marketplace. Not least, basic institutional reform is needed in financial markets, to supersede their present subordination to government financing priorities by a new mission to boost domestic savings — for example, by offering attractive vehicles for thrift — and to channel credit with genuine pri-

Table 4

Export performance in 1985

	% change from 1984 Value	% change from 1981-82 average Value	Volume
Argentina	3.7	0.2	26.7
Bolivia	-18.5	-32.1	-28.9
Brazil	-5.1	18.0	27.6
Chile	-0.3	-3.5	23.1
Colombia	9.8	19.6	14.3
Ecuador	1.4	8.8	41.6
Mexico	-11.4	4.8	16.2
Peru	-4.7	-8.3	-6.7
Uruguay	-8.1	-24.0	11.6
Venezuela	-10.4	-21.8	-21.3
10 major Latin American debtors	-8.1	1.0	11.8

Table 5

Nontraditional exports*

in dollar terms

	% change 1981-82 average to 1985	As % of total exports	
		1981-82	1985
Argentina	22	30	37
Bolivia	-100	5	0
Brazil	24	51	54
Chile	-3	55	55
Colombia	23	52	53
Ecuador	13	6	5
Mexico	24	27	31
Peru	12	22	27
Uruguay	-14	55	65
Venezuela	70	4	10
10 major Latin American debtors	21	30	35

*Manufactures plus commodities of minor significance in 1981-82.

macy for rate of return criteria.

To make such reforms a reality, government leaders in the debtor countries will have to challenge their own entrenched bureaucracies and other powerful interests that benefit from the status quo. Sensitive distributional issues are at stake, so incentives and inducements for reform are all important. External creditors can play a key guiding and facilitating role. The World Bank, besides deploying its own financial resources, has much to contribute in bringing to bear its development expertise in the design and implementation of appropriate policy reforms — requiring, in effect, that the institution in its lending activities stress structural improvements over specific investment projects. A central role for the Bank does not mean that the IMF can or should retire from the scene. Its experience in assisting macroeconomic stabilization remains vital. Besides, to ensure good use of their money, commercial banks are seeking to link their lending with that of the Bank and Fund. The banks further wish to see official multilateral lending firmly linked to policy improvements in the borrowing countries — improvements on which the Bank and the Fund are best placed to provide advice, set performance standards, and measure progress. With reopening of private international markets for voluntary lending not yet in the offing, "linked lending" will be the operative approach for some time to come.

World Bank refocusing

To date the World Bank has been mostly on the sidelines in dealing with the debt problem. It has accelerated disbursements of some existing project loans under a Special Action Program. But the institution's organization and procedures

have remained project driven, while borrowers have resisted Bank policy conditionality in addition to the IMF's. Experience shows project lending to be ineffectual for wide-ranging policy reform and institutional change. Although project negotiations may be accompanied by a broad economic policy dialogue between the Bank and the borrowing government, performance covenants usually relate directly to specific project areas. Loan disbursements are tied primarily to progress in project implementation. Even where the performance covenants go unmet the Bank has been reluctant to suspend disbursements.

Policy-based lending by the Bank began in 1980 with the introduction of Structural Adjustment Loans (SALs), followed more recently by sector loans.* Together, such loans have averaged about 10% of the Bank's annual commitments to all borrowers in recent years — well below the 20% contemplated by internal guidelines. Policy-based lending to Latin America reached substantial proportions in 1983-84 but has since fallen back (see Table 10). Putting a stronger emphasis on internal policy reform and structural adjustment will require a significant shift in Bank practices. Its Articles of Agreement state that "loans made or guaranteed by the Bank shall, ex-

Table 6

Import performance in 1985

	% change from 1984		% change from 1981-82 average
	Value	Value	Volume
Argentina	-12.0	-45.4	-43.4
Bolivia	6.5	-11.7	-8.5
Brazil	-5.2	-36.4	-26.4
Chile	-12.4	-42.1	-34.8
Colombia	0.5	-20.7	-22.6
Ecuador	5.9	-26.9	-26.1
Mexico	20.8	-29.1	-28.9
Peru	-6.5	-46.8	-45.5
Uruguay	5.7	-41.1	-46.1
Venezuela	-9.2	-48.7	-28.1
10 major Latin American debtors	0.2	-36.9	-29.8

*SALs prescribe a comprehensive program and agreement on policy and institutional changes affecting several sectors of the borrower's economy. For example, last year's \$250 million SAL for Chile involves policy actions to promote exports, prioritize public-sector investment, improve management in state enterprises, rehabilitate the financial sector, and increase the efficiency of government employment programs. Sector loans are more narrowly focused and involve policy actions designed to improve the performance of a particular sector of the economy. For example, the Bank has extended loans to the Brazilian agricultural and industrial sectors to support policy reforms aimed at enhancing their export performance. In both forms of policy-based lending, the Banks' disbursements are made within a relatively short period, ranging from one to three years, and are tied to the carrying out of specific policy actions. The proceeds of SALs usually go into general government revenues, to a government agency for onlending, or to finance imports. The proceeds of sector loans finance a portion of the investment program of the specific sector.

Chart 2
Commodity prices
1980 = 100

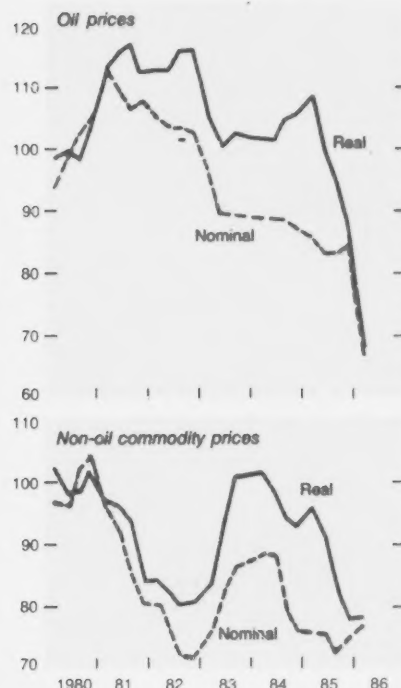


Table 7

Consumer prices
percent change from previous year,
except where noted

	Dec 1981	Dec 1985	Latest 3 months annualized*
Argentina	131	385	34
Bolivia	26	8,068	495
Brazil	95	235	336
Chile	10	26	21
Colombia	26	22	16
Ecuador	17	24	20
Mexico	29	64	87
Peru	73	158	45
Uruguay	29	83	73
Venezuela	11	6	8
10 major Latin American debtors**	58	140	121

*3 months ended January 1986 versus previous 3 months, except for Bolivia, Uruguay, and Venezuela, which are for 3 months ended December.

**1984 GDP-weighted geometric averages.

cept in exceptional circumstances, be for the purpose of specific projects for reconstruction or development." As recently as June 1985, deputies to the ministers and governors of the Group of Ten (G-10) stated their belief that the Bank's "primary emphasis must remain on project lending" although it should be "more active in encouraging external finance for investment, supporting medium-term structural adjustment, and enhancing its role as aid coordinator in developing countries."

If the Bank is to fulfill its role under the Baker initiative, its principal member governments will have to provide clear guidance and strong support for changes beyond those endorsed until now. The Bank must help the debtor countries formulate concrete objectives and specific commitments, including firm timetables for policy actions that can be monitored. Loan disbursements should be tied to early progress on critical issues. The Bank must be more willing than in the past to withdraw financial support from borrowers departing from agreed commitments. The Bank also needs to reinforce the message from other creditors, notably commercial banks, that without evidence of policy improvement and credible assurance that funds will be used productively, the debtor countries will not attract their desired external financing.

The Bank's success in the context of the Baker initiative also will be judged by its ability to mobilize complementary financing from commercial banks and other external creditors. The Bank will have to make known to commercial banks both its eligibility standards for policy-based loans and the specific performance criteria for assessing compliance and triggering disbursements. Equally important, sanctions for noncompliance have to be

spelled out. Moreover, in cofinancing or parallel lending with commercial banks, the Bank also will have to be more flexible in adapting its "preferred creditor status." In particular, the commercial banks want the Bank to tighten cross-default clauses in its loan contracts, to share interest and principal receipts, and to suspend all disbursements when parallel commercial bank debt is not being serviced.

For now, the Bank has sufficient resources and authorized capital to expand its lending in line with the Baker initiative as presently conceived. However, by late 1987 the Bank may need an increase in capital. Member governments' support, particularly that of the United States, will depend importantly on whether the institution is successful in working jointly with the borrowing countries and the commercial banks. The Inter-American Development Bank's need for additional capital is more immediate. Secretary Baker has conditioned U.S. support on a firm commitment by that organization to strengthen its lending policies in support of debtor-country reforms. Amid U.S. budgetary stringencies, both institutions must mount a highly effective response to the Baker initiative if U.S. support is to be forthcoming when capital increases are needed.

Bridging the IMF and World Bank

For the debtor countries, internal and external macroeconomic stability — the primary objective of the IMF — is prerequisite to effective structural adjustment and satisfactory economic growth. Thus, the policy advice and programs of the two institutions should be coordinated to be consistent and mutually reinforcing. This has not always been the case. What is needed are continuous exchange of information

Table 8

Economic growth

	Real GNP % per annum			Real GNP per capita % change from early 1980s* peak to 1985
	1982-83	1984	1985	1985
Argentina	-1.0	2.4	-4.0	-16.8
Bolivia	-5.9	-3.2	-3.1	-28.4
Brazil	-1.1	4.5	7.5	-3.4
Chile	-7.4	6.3	1.0	-14.4
Colombia	1.0	3.2	2.0	-0.9
Ecuador	-0.9	4.1	2.5	-6.6
Mexico	-2.9	3.7	3.9	-8.0
Peru	-5.6	4.5	2.5	-14.2
Uruguay	-7.1	-1.8	0.0	-18.0
Venezuela	-2.5	-1.4	-0.4	-19.3
10 major Latin American debtors	-2.1	3.3	3.4	-7.2

Table 9

**Capital flight and
net new borrowing**cumulative flows during 1983-85
billions of dollars

	Capital flight*	Net new borrowing**
Argentina	0.1	6.5
Bolivia	0.3	1.0
Brazil	6.6	20.2
Chile	-0.6	3.9
Colombia	0.7	3.2
Ecuador	0.6	1.3
Mexico	16.2	9.0
Peru	1.1	2.9
Uruguay	0.2	0.5
Venezuela	5.5	-4.2
10 major Latin American debtors	30.8	44.2

*Includes unrecorded trade transactions and valuation changes in debt and official reserves due to exchange rate movements; minus sign indicates net inflows.

**Increase in gross external debt from end-1982 to end-1985; minus sign indicates net repayment of debt.

and analysis at both management and staff levels, joint missions to the debtor countries, close collaboration in designing programs and setting conditions, and shared responsibility for monitoring performance.

In the corporate world, strong complementarity and a compelling rationale for cooperation often lead to mergers or joint ventures. At a minimum, the Fund and Bank require a strong bridge in the form of substantive commonality of program objectives and performance criteria. The particular forms of Fund and Bank involvement in individual countries will vary over time and from case to case. In some instances, "enhanced surveillance" provides a satisfactory basis for Fund policy advice and performance monitoring in conjunction with Bank lending. In others, the Fund's formal standby or extended facility programs may be needed as well. At all events, the banks deem essential a continuing central role for the Fund.

The Fund, like the Bank, has large resources available for lending. Its holdings of G-10 currencies totaled more than \$32 billion at the end of 1985. It has more than \$18 billion available under the General Arrangements to Borrow with the G-10 plus Switzerland. In addition, the Latin American countries singled out in the Baker initiative are scheduled to repay more than \$6 billion to the Fund over the next three years (see Table 11). All have substantial unutilized borrowing capacity at the Fund. Current rules allow total borrowings up to a maximum of 400% to 440% of quota, plus drawings under the compensatory financing facility. Exceptionally, the Fund can approve standby or extended facilities in excess of these limits. Although not all debtor countries need additional Fund money, some do. The Fund has resources, and they should be put to use.

**Commercial banks and
their regulators**

Critical for the banks are the attitudes and actions of bank regulators. Regulators must recognize the folly of penalizing banks for lending new money within the framework of the Baker initiative. Right now, regulators in many countries are taking steps that do just that — an issue to be faced head on.

In the United States, the Comptroller of the Currency, who is responsible for regulating nationally chartered banks, has told bank managements and boards of directors that their existing credits to many debtor countries should be treated as problem loans, and that any new credits to those borrowers should be labeled the same way. The logic of Secretary Baker and Federal Reserve Chairman Volcker is more compelling. Both maintain that, in appropriate circumstances, new lending can help improve the quality of credits already on the books.

U.S. regulators also insist that banks build up their capital, including their loan loss reserves, just when the Administration has introduced legislation to eliminate the already limited tax deductibility of provisions for possible losses. Losses would be deductible only as they occur. Moreover, reserves arising from previous years' tax deductible provisions for possible losses would have to be taken into taxable income over the next ten years. Although many banks already have made provisions in excess of those that are tax deductible, the reduced incentive for banks to make adequate provisions runs directly counter to regulatory objectives. Plainly, the regulators should be working with the Treasury Department to devise ways to achieve their objectives without jeopardizing the flow of new money.

Banks in other industrial coun-

Table 10

World Bank lending to 10 major Latin American debtors
millions of dollars

	Annual averages		1985
	1980-82	1983-84	
Total commitments*	2,533	2,904	3,399
Of which:			
policy-based	68	916	368
(% of total)	3	32	11
Net disbursements**	975	1,615	1,661
Argentina	46	23	75
Bolivia	36	1	—1
Brazil	299	935	351
Chile	13	14	212
Colombia	169	234	424
Ecuador	29	36	16
Mexico	320	299	505
Peru	81	68	91
Uruguay	4	24	11
Venezuela	—22	—19	—22

*Fiscal years.

**Calendar years. Gross disbursements minus repayments.

Table 11

Use of IMF credit
as of December 31, 1985
billions of dollars

	Loans out- standing	Potential borrow- ings*	Gross repayments scheduled for 1986-88
Argentina	2.31	3.45	1.33
Bolivia	0.05	0.37	0.05
Brazil	4.62	3.13	2.30
Chile	1.09	1.25	0.70
Colombia	0.0	1.73	0.0
Ecuador	0.36	0.40	0.22
Mexico	2.97	2.15	0.91
Peru	0.70	1.05	0.42
Uruguay	0.35	0.49	0.19
Venezuela	0.0	6.03	0.0
10 major Latin American debtors	12.45	20.04	6.11

*Up to 400% of quota, excluding borrowings under the compensatory facility.

tries also have raised regulatory issues in connection with their expressions of support for the Baker initiative. In Canada, Japan, and several European nations, officials have required banks to establish sizable reserves against loans to a long list of countries. These reserves apply to new loans as well as old. As a result, a bank making a new loan must immediately take a charge against its earnings, a charge that often is not tax deductible. Canadian banks, for example, have been required by the Inspector General of Banks to set up reserves by the end of 1986 equal to between 10% and 15% of their exposures to 32 nations involved in debt rescheduling. The Japanese Ministry of Finance has called upon Japanese banks to provide loan loss reserves out of after tax profits of up to 5% of their exposures from new as well as existing loans to 33 countries. In Europe, the Dutch supervisory authorities have called for specific loss provisions ranging from 5% to 100% against loans to more than 20 countries. The Swiss Federal Banking Commission has grouped countries in three risk categories, issuing guidelines for loan loss provisions ranging from 10% to 50% and averaging about 20%. Such requirements are hardly an incentive to make new loans.

Even if regulatory hurdles are cleared, the cooperation of all the banks with credit outstanding to the debtor countries will not be readily achieved. Virtually all large international banks realize that it is in their best interest to continue to work closely with the borrowing countries toward a solution to their debt problem. However, some of the smaller or regional banks — many in the United States as well as some abroad — have a different perspective. They have relatively small exposures and often no interest in con-

tinuing to do business with some countries. Even if they can be persuaded to roll over existing loans, they are loath to advance any new money. Fortunately, these banks hold a relatively small proportion of the outstanding loans to most debtor countries, and their pro rata share of any new money loans would be correspondingly modest. For example, in previous new money packages for several major Latin American debtor countries, smaller lenders representing 70%-75% of the total number of participating banks accounted for only 10% of the total amount of new money commitments.

One approach would allow them simply to drop out of future new credits. This poses several questions: where to make the cutoff between participants and nonparticipants; how to prevent the cutoff from being too high or from steadily creeping up; and who will take up the shortfall.

Another approach, perhaps in combination with a cutoff point, would give some of the smaller participants the choice of limiting their new lending to just a few countries where they have continuing business interests — for example, trade financing for domestic customers, or long-standing correspondent banking relationships. Still another avenue being explored would give banks the option of putting their pro rata share of new money into a series of loans that would be disbursed to individual countries in conjunction with World Bank structural adjustment and sector policy loans. These banks might purchase participations in specific Bank loans, but without recourse to the Bank. To some bank managements and boards of directors, such parallel lending might be more acceptable than independent lending. It also might qualify for different regulatory treatment.

Table 12

Earnings repatriation versus interest rate decline

billions of dollars

	<i>Identifiable nonbank residents' deposits in foreign banks</i>	<i>Estimated Outstand- ings as of Sep 1985</i>	<i>Estimated interest earnings (at 7½ %)</i>	<i>Net payments impact of one- percentage- point decline in interest rates*</i>
Argentina	8.2	0.62	0.28	
Bolivia	0.4	0.03	0.01	
Brazil	8.5	0.64	0.61	
Chile	2.2	0.17	0.16	
Colombia	2.6	0.20	0.05	
Ecuador	1.3	0.10	0.04	
Mexico	15.3	1.15	0.72	
Peru	1.5	0.11	0.04	
Uruguay	2.0	0.15	0.01	
Venezuela	12.6	0.94	0.11	
10 major Latin American debtors	54.6	4.10	2.03	

*Based on estimated end-1985 net floating-rate debt (gross floating-rate external debt minus official foreign exchange reserves and foreign assets of commercial banks).

Responsibilities of industrial-country governments

The Baker initiative says nothing of direct provision of credit by industrial-country governments. Nonetheless, commercial banks expect them to participate, chiefly through the active support of official export credit agencies. Hitherto, many of these agencies have been anything but supportive. Their policies have been uncoordinated. Several have suspended or restricted export financing and credit insurance. They have taken little heed of debtor progress in implementing adjustment programs — even countries complying with IMF conditions and with a Paris Club rescheduling in place have tended to find their access restricted, especially to medium- and long-term credits. Banks feel strongly that official export credit agencies should add their financial support to that of other creditors in assisting debtor countries that undertake stabilization and growth-oriented structural adjustment programs within the Baker initiative framework. Restrictions should be lifted on access to official export cover. And the facilities should be administered with enough flexibility to ensure increased usage.

More important, industrial-country governments need to secure satisfactory economic growth themselves and keep their markets open to developing-country producers. Otherwise the debtor countries will suffer depressed prices for their exports and will fail to achieve the export-led growth that builds debt-servicing capacity. Despite protectionist sins of its own, the United States has boosted its imports from the major debtor countries very substantially during the past three years. By contrast, sluggish domestic demand growth and protectionist practices have stifled any significant increase in the imports of Ja-

pan and Europe from those same debtors. Plainly, the Baker initiative demands more growth-oriented policies not only in the debtor countries but in Japan and Europe as well. Equally, it requires that the major countries press on toward active negotiations to bring down trade barriers — preferably with the positive participation of the debtor countries, which have as much to gain as any from liberalized trade.

Growth-oriented policies in the industrial countries should extend to further declines in international interest rates. Rates may well decline as the financial markets respond to the evidence of continuing low inflation, newly fortified by the drop in oil prices. Each one-percentage-point drop in short-term interest rates reduces the net interest payments of the ten Latin American debtors by \$2 billion. Of course, future interest rate declines are no certainty and depend heavily on the monetary policies of the major countries. What should be remembered is that the debtors already are in line for substantially reduced interest payments by virtue of the sharp drop in dollar interest rates during the past 18 months. Accordingly, there now is less reason to complain of the interest cost burden. In fact, as Table 12 makes clear, many of the debtors would benefit more by repatriation of the earnings on nonbank residents' foreign bank deposits, not to mention return of flight capital, than by any plausible further decline in interest rates.

Conclusion

The Baker initiative has drawn strong endorsements from the heads of the Bank and the Fund. In addition, the principal commercial bank creditors now have agreed in principle to lend new money as needed

on a case-by-case basis. However, other essential participants have been less forward or specific. Governments of most major industrial countries have been silent on their own intentions, for example concerning export credit policies. Their supervisory and revenue agencies still maintain policy positions that discourage the new lending sought from the commercial banks. For their part, governments of the debtor nations, as exemplified by the declaration of the Group of Cartagena, display scant commitment to domestic policy reforms. Unless all parties come together in reasonably short order and with real credibility, it will be difficult to translate the Baker initiative into a workable plan, let alone into working practice.

The urgency of moving the initiative into practice is heightened by the pressing needs of several major debtors, especially Mexico. Mexico has attained neither sustainable and satisfactory economic growth nor the normalization of financial flows. It now provides a proving ground for the Baker initiative. With oil prices sharply lower, and perhaps not yet at bottom, Mexico cannot adjust merely by stepping up oil production. Instead, it will have to speed diversification of its export base and strengthen its agricultural and industrial sectors across the board. This is partly a matter of correcting public-sector inefficiencies and curbing the pervasive reach of government over its private sector — steps

much needed to improve the allocation of scarce resources. It also is a matter of expanding the pool of resources, from both domestic savings and foreign investment.

Although Mexico's needs for external financing are not yet agreed with any precision, it is vital they be addressed within the Baker initiative framework. Thus, all major groups of foreign creditors — official and private — have important roles to play: the World Bank, for its experience in the design and implementation of structural and microeconomic policy improvements, as well as its lending capacity; the Fund, for its stabilization advice and balance of payments financing capability; the commercial banks, through lending linked with that of the Bank and Fund; and industrial-country governments, through their special financing facilities, their Paris Club and export credit policies, their supervisory actions vis-à-vis financial institutions, and their overall position of leadership in the world economy. Mexico, for its part, should seize this moment to mount a determined drive for politically sensitive, but nonetheless essential, economic reforms. Amid the broad external support promoted by the Baker initiative, internal reforms can open up investment and growth opportunities within Mexico, strengthen the confidence of its residents and foreigners alike, and create an economy competitive in the world marketplace.

Statistical appendix

*For key to data in tables
see pages 18 and 19.*

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.8	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.8	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985	127.1	92.8	115.8	76.3	85.4	107.7	82.2	88.2	104.2	89.5	103.9	75.6	109.5	95.0	95.6	83.9
1985																
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	106.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
June	130.5	93.2	112.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July	126.1	93.5	113.1	75.4	85.2	107.1	81.4	93.6	103.8	89.0	103.5	75.5	110.2	94.5	95.7	83.6
August	124.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September	125.2	92.1	114.9	74.0	86.3	108.6	79.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.9	91.3	123.6	71.8	87.3	109.8	80.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
November	117.0	90.3	129.5	67.9	87.6	109.9	80.2	89.7	105.2	90.5	105.6	72.8	113.4	96.5	94.8	83.3
December	116.1	88.9	129.2	67.8	88.3	111.3	80.2	88.3	105.9	90.4	106.7	72.9	112.3	97.3	94.9	83.1
1986																
January	115.0	87.9	130.2	69.1	88.8	112.5	81.0	85.3	106.5	91.0	107.6	73.2	112.1	97.7	94.8	82.7
December 27	116.1	88.5	129.3	68.0	88.3	111.8	80.5	87.1	106.1	90.5	107.0	72.6	112.3	97.6	94.8	83.2
January 3	115.1	88.3	129.8	67.4	88.6	112.2	80.7	86.7	106.2	90.8	107.4	73.0	112.5	97.9	94.7	82.9
10	115.2	88.4	128.9	68.3	88.7	112.2	80.8	86.8	106.4	90.8	107.4	73.2	111.7	97.7	94.8	82.8
17	115.6	88.2	128.7	69.0	88.5	112.0	80.7	86.5	106.3	90.8	107.5	73.2	111.7	97.3	94.7	82.8
24	115.4	88.0	130.0	70.4	88.9	112.7	81.2	83.7	106.5	91.2	107.8	73.2	112.3	97.6	94.9	82.7
31	113.9	86.9	133.3	69.9	89.4	113.2	81.5	82.8	106.7	91.4	108.0	73.2	112.6	97.9	95.0	82.4
February 7	113.9	86.7	135.7	68.3	81.6	113.1	82.2	89.4	106.7	91.5	107.9	73.2	112.7	97.9	95.2	82.5

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.5	101.1	89.3	102.7	90.9	100.0	95.0	99.4	96.5	100.1	96.9
1985	121.3	97.4	96.4	88.8	99.6	95.4	99.7	91.9	102.9	90.2	98.2	97.4	97.7	98.1	99.1	98.0
1985																
February	129.7	100.0	93.5	97.9	97.0	94.5	101.7	83.8	102.0	91.4	97.1	98.5	95.0	96.3	98.0	100.2
March	129.6	98.1	94.0	92.5	97.6	94.0	99.8	86.5	101.6	91.7	97.0	98.0	95.5	97.4	98.3	99.6
April	125.1	98.3	93.6	84.9	96.7	94.6	99.6	91.2	102.4	91.3	97.4	98.8	96.3	98.3	98.5	98.0
May	126.0	97.2	92.9	88.3	99.1	94.3	100.0	92.3	101.9	90.3	97.3	97.7	95.3	97.6	99.3	98.0
June	124.7	97.7	93.1	86.5	98.4	94.2	100.8	93.9	102.2	90.8	97.4	97.9	95.7	97.2	99.1	97.5
July	120.6	97.8	93.6	88.5	99.5	94.6	99.3	97.7	102.8	90.0	97.8	97.0	97.7	96.6	99.0	97.4
August	118.4	97.4	94.1	89.2	101.2	96.0	97.7	95.8	103.6	89.6	99.0	96.9	99.3	97.5	98.1	97.0
September	118.0	97.7	95.5	87.7	100.6	96.1	98.1	95.9	103.5	89.6	98.7	96.8	98.0	97.8	100.5	97.0
October	114.2	95.6	101.3	85.2	101.7	96.7	98.5	94.5	104.0	83.2	99.3	95.6	101.3	100.2	99.7	97.0
November	112.8	94.3	105.5	80.9	101.9	96.8	98.9	94.6	104.1	88.9	99.3	95.9	101.3	100.5	100.1	97.1
December	111.9	92.9	105.1	81.0	102.6	98.1	99.3	93.2	105.1	88.3	100.3	96.5	100.6	100.4	100.6	96.8
1986																
January	111.3	91.7	905.2	82.9	103.1	99.0	100.6	90.2	105.7	88.3	101.1	97.3	100.7	101.2	101.0	96.5

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colom- bia	Mexico	Peru	Vene- zuela	Hong Kong	Indo- nesia	Korea	Malaysia	Philip- pines	Singap- ore	Taiwan	Israel	Turkey
1981	107.7	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.2	104.4
1982	76.5	112.0	96.6	104.8	81.9	103.7	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.7	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.4	92.8
1984	80.0	85.5	89.6	99.3	91.5	105.6	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1985	71.0	84.7	79.3	85.2	90.1	96.7	93.2	106.2	94.7	88.5	115.8	115.1	89.6	92.9	105.6	90.9
1985																
January	75.0	94.1	88.1	99.0	97.8	99.2	90.3	108.8	100.0	97.0	120.5	118.4	95.7	98.3	109.4	96.0
February	74.9	93.1	89.6	99.7	100.2	100.1	94.4	111.5	101.2	97.9	119.4	123.5	95.7	99.5	119.4	102.3
March	76.5	96.6	82.8	96.5	100.9	99.2	94.3	112.1	99.9	96.2	118.1	123.4	95.7	98.6	115.9	101.5
April	76.2	88.9	81.4	91.4	98.9	95.9	92.4	108.7	98.6	92.1	118.4	118.7	94.4	96.1	112.5	96.3
May	76.6	84.1	82.7	88.9	97.9	99.5	93.6	108.9	98.2	91.0	118.9	117.4	93.2	95.1	104.5	94.1
June	75.5	80.9	84.7	86.6	97.4	99.2	93.4	108.1	98.0	90.0	118.4	116.9	91.4	94.5	105.2	90.0
July	67.9	78.8	76.7	83.4	93.9	97.3	92.8	105.3	95.1	87.7	116.2	112.9	87.8	91.8	99.1	86.5
August	67.1	80.6	74.1	81.6	82.0	90.8	92.8	103.3	93.5	85.9	114.6	111.8	86.2	90.2	98.4	85.2
September	67.8	80.9	75.6	80.7	82.7	94.9	94.2	104.9	93.6	86.0	115.4	111.3	86.9	90.9	101.7	86.2
October	65.1	79.4	73.0	74.9	78.8	93.6	94.1	101.6	87.7	81.9	110.7	106.0	84.3	87.6	100.6	85.1
November	64.2	80.4	72.3	73.6	77.3	94.6	93.1	100.9	86.2	80.5	109.8	112.5	83.1	87.0	101.2	84.8
December	63.8	80.1	70.9	72.2	74.3	96.4	92.8	100.4	85.8	78.5	109.0	108.9	82.1	86.2	100.4	82.3

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984			1985		
				Jun	Sep	Decr	Marr	Junr	Sep
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 330	2 322	2 359	2 457	2 442	2 500
On nonbanks	557	634	665	679	676	694	706	706	740
On banks	1 372	1 512	1 588	1 651	1 646	1 665	1 751	1 723	1 760
In dollars	1 504	1 694	1 797	1 850	1 857	1 894	1 944	1 908	1 978
In other currencies	425	452	456	480	465	465	513	534	620
Domestic currencies, on nonresidents	365	398	398	406	393	397	402	417	443
On nonbanks	128	132	136	140	138	137	140	144	157
On banks	237	266	262	266	255	260	262	273	286
In dollars	188	211	217	218	208	210	201	204	197
In other currencies	177	187	181	188	185	187	201	213	246
Total	2 294	2 544	2 651	2 736	2 715	2 756	2 859	2 859	3 041
On nonbanks	695	766	801	819	814	831	846	863	900
On banks	1 609	1 778	850	1 917	1 901	1 925	2 013	1 996	2 141
In dollars	1 692	1 905	2 014	2 068	2 065	2 104	2 145	2 112	2 175
In other currencies	602	639	637	668	650	652	714	747	866
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 168	2 278	2 360	2 349	2 386	2 477	2 462	2 621
To nonbanks	372	432	479	503	492	497	508	509	529
To official monetary institutions	112	91	88	88	94	96	96	106	109
To other banks	1 470	1 645	1 711	1 769	1 763	1 793	1 873	1 847	1 983
In dollars	1 539	1 741	1 846	1 905	1 912	1 950	1 998	1 960	2 026
In other currencies	415	427	432	455	437	436	479	502	595
Domestic currencies, to nonresidents	263	250	258	277	274	277	289	306	336
To nonbanks	74	70	71	71	72	77	78	85	98
To banks	189	180	187	206	202	200	211	221	238
In dollars	126	116	133	140	140	143	143	150	154
In other currencies	137	134	125	137	134	134	146	156	182
Total	2 217	2 418	2 536	2 637	2 623	2 663	2 766	2 768	2 957
To nonbanks	446	502	550	574	564	574	586	594	627
To banks and official institutions	1 771	1 916	1 986	2 063	2 059	2 089	2 180	2 174	2 330
In dollars	1 665	1 857	1 979	2 045	2 052	2 093	2 141	2 110	2 180
In other currencies	552	561	557	592	571	570	625	658	777
Net market size	1 155	1 285	1 377	1 417	1 407	1 425	1 447	1 477	1 556

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-Dec	
				Oct	Nov	Dec	1985	1984
By country of borrower								
Industrial countries	108 772	102 852	177 077	25 412	23 698	19 685	225 676	177 077
Australia	7 213	5 737	5 816	917	4 066	882	14 407	5 816
Austria	2 068	1 290	2 254	317	80	108	2 435	2 254
Belgium	1 528	2 168	1 847	57	283	784	3 209	1 847
Canada	15 856	8 571	13 124	1 063	2 317	356	17 184	13 124
Denmark	2 725	3 941	4 825	460	229	86	3 589	4 825
Finland	1 446	1 271	1 713	233	34	386	1 829	1 713
France	14 813	8 626	11 298	1 412	685	1 947	18 773	11 298
Germany	1 101	3 197	2 165	650	154	597	3 452	2 165
Greece	808	1 291	1 551	—	—	—	1 588	1 551
Ireland	1 136	1 869	1 377	123	326	217	1 913	1 377
Italy	6 687	4 876	6 933	742	572	1 220	11 008	6 933
Japan	8 397	14 122	17 526	2 244	1 927	909	21 269	17 526
Netherlands	1 000	1 213	1 973	81	424	113	2 299	1 973
New Zealand	4 786	802	3 208	72	657	156	2 707	3 208
Norway	2 601	1 969	1 324	150	377	375	3 905	1 324
Portugal	1 684	1 000	1 796	88	—	700	2 382	1 796
South Africa	1 889	1 300	1 422	—	—	—	825	1 422
Spain	2 675	4 977	4 931	46	20	286	3 848	4 931
Sweden	3 181	7 144	11 256	876	478	213	9 822	11 256
United Kingdom	2 836	2 726	8 899	2 465	4 229	1 438	25 329	8 899
United States	21 109	20 276	65 054	13 107	5 888	8 422	68 312	65 054
Other*	3 233	3 950	6 785	304	931	492	5 592	6 785
Developing countries	49 023	38 256	39 725	1 854	3 861	2 225	31 777	39 725
Latin American countries	29 667	15 592	17 464	94	1 371	1 060	8 104	17 464
Argentina	1 585	1 750	4 212	—	—	—	3 700	4 212
Brazil	5 972	4 475	6 649	—	—	—	—	6 649
Chile	1 194	1 405	784	—	1 085	—	1 085	784
Colombia	776	552	589	—	—	1 000	1 052	589
Mexico	9 968	5 138	3 918	—	49	60	109	3 918
Venezuela	7 241	237	—	48	—	—	48	—
Other**	2 951	2 035	1 312	46	237	—	2 110	1 312
Asian countries	11 723	12 978	15 893	903	2 227	764	18 276	15 893
India	555	968	945	27	214	—	718	945
Indonesia	1 822	2 363	1 924	—	—	—	451	1 924
Korea	3 277	4 387	6 201	509	553	130	5 898	6 201
Malaysia	2 872	2 197	2 605	41	466	—	2 220	2 605
Philippines	888	878	925	—	—	—	925	925
Thailand	414	747	1 221	—	95	300	1 497	1 221
Other	1 895	1 438	2 072	326	899	334	6 568	2 072
Middle Eastern and African countries	7 633	9 686	6 368	858	264	491	5 397	6 368
Algeria	86	1 993	821	—	—	150	1 450	821
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	111	264	138	1 167	741
Other	5 201	4 244	3 821	746	—	113	2 781	3 821
Eastern European countries	1 479	1 294	3 244	125	302	711	5 236	3 244
Hungary	340	741	1 386	—	—	415	1 578	1 386
Soviet Union	1 131	93	1 051	—	152	146	1 489	1 051
Other***	8	460	807	125	150	150	2 169	807
International organizations****	11 353	16 201	13 287	1 890	1 126	1 898	20 635	13 287
By type of instrument and currency								
International bond issues	78 042	76 329	107 411	17 246	17 516	11 807	167 719	107 411
Eurobonds	51 645	48 501	79 458	12 908	13 933	10 163	136 746	79 458
U.S. dollar	43 959	38 428	63 593	7 670	10 136	6 593	97 782	63 593
German mark	2 588	3 817	4 604	1 483	1 897	1 114	9 491	4 604
British pound	748	1 947	3 997	797	639	525	5 766	3 997
Japanese yen	374	212	1 212	1 109	—	1 078	6 539	1 212
European composite units	1 980	2 019	3 032	849	549	363	7 038	3 032
Other	1 996	2 078	3 020	1 002	712	490	10 129	3 020
Foreign bonds	26 397	27 828	27 953	4 338	3 584	1 644	30 973	27 953
U.S. dollar	5 946	4 545	5 487	564	650	—	4 655	5 487
German mark	2 952	2 671	2 243	—	248	120	1 741	2 243
British pound	1 214	811	1 292	—	284	—	958	1 292
Swiss franc	11 432	14 299	12 626	2 792	1 698	1 309	14 939	12 626
Japanese yen	3 413	3 772	4 628	912	282	98	6 342	4 628
Other	1 435	1 730	1 677	70	423	116	2 339	1 677
International bank credits	92 585	82 074	125 922	12 035	11 469	12 712	115 605	125 922
Eurocurrency credits	85 015	74 222	112 605	11 522	10 095	12 563	109 025	112 605
Foreign credits	7 570	7 852	13 317	514	1 374	150	6 580	13 317
Total	170 627	158 403	233 333	29 282	28 987	24 519	283 324	233 333

*Includes multinational organizations.

**Includes unallocated.

***Includes COMECON institutions.

****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985						1986
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Eurodollar										
overnight	9.25	9.50	8.63	8.50	7.56	8.38	7.88	7.88	12.25	7.88
one month	9.13	9.69	8.38	7.94	7.94	7.94	7.88	8.06	8.00	7.94
three months	9.19	9.81	8.63	8.19	8.00	8.06	7.94	8.06	7.88	7.94
six months	9.50	10.06	9.13	8.44	8.13	8.31	8.00	8.06	7.88	8.00
twelve months	9.63	10.38	9.81	8.88	8.56	8.56	8.25	8.17	7.94	8.13
Euro-Canadian dollar										
one month	10.00	9.13	9.88	8.69	8.75	8.38	8.31	8.88	9.00	10.69
three months	10.00	9.50	10.81	8.94	8.94	8.69	8.38	8.88	9.00	10.69
six months	10.13	9.75	10.06	9.31	9.19	9.06	8.56	8.94	9.00	10.44
twelve months	10.25	10.00	10.44	9.50	9.50	9.38	8.94	9.06	9.00	10.31
Euro-French franc										
one month	23.00	12.13	10.69	14.00	9.88	9.63	9.19	9.63	12.50	16.00
three months	24.00	12.19	10.69	14.00	10.63	10.50	9.63	9.75	13.00	16.25
six months	22.00	12.31	11.00	13.75	11.50	10.88	10.63	10.25	13.13	13.75
twelve months	19.75	12.63	11.38	13.00	11.75	11.25	10.88	10.25	12.25	12.75
Euromark										
one month	5.88	5.25	5.50	4.69	4.50	4.44	4.69	4.69	4.75	4.56
three months	5.88	5.88	5.50	4.81	4.50	4.50	4.63	4.69	4.75	4.57
six months	5.94	6.13	5.56	4.94	4.56	4.63	4.94	4.75	4.75	4.57
twelve months	6.00	6.38	5.56	5.00	4.69	4.75	5.06	4.88	4.81	4.63
Euro-Dutch guilder										
one month	5.13	5.81	5.69	6.06	5.75	5.69	6.13	5.75	5.75	5.69
three months	5.19	6.00	5.75	6.00	5.69	5.69	6.19	5.75	5.75	5.69
six months	5.38	6.25	5.81	6.00	5.69	5.69	6.19	5.88	5.81	5.69
twelve months	5.63	6.38	5.94	6.00	5.69	5.69	6.25	5.94	5.88	5.75
Euro-Swiss franc										
one month	2.81	3.38	4.44	4.38	4.44	4.19	3.88	4.00	3.88	4.06
three months	3.25	3.75	4.56	4.50	4.56	4.50	4.44	4.00	4.00	4.06
six months	3.44	3.94	4.63	4.63	4.69	4.63	4.50	4.00	4.00	4.06
twelve months	3.44	3.94	4.69	4.69	4.63	4.63	4.56	4.06	4.06	4.13
Eurosterling										
one month	10.56	9.13	9.50	11.50	11.88	11.63	11.56	11.63	11.69	12.75
three months	10.44	9.31	9.88	11.19	11.63	11.50	11.50	11.56	11.81	12.81
six months	10.31	9.50	10.00	11.00	11.13	11.19	11.44	11.31	11.81	12.75
twelve months	10.31	9.81	10.19	10.88	11.06	11.00	11.19	11.13	11.69	12.63
Euroyen										
one month	6.75	6.25	6.19	6.25	6.44	6.75	7.50	8.19	7.13	6.38
three months	6.75	6.31	6.19	6.31	6.38	6.38	7.75	7.69	6.56	6.13
six months	7.10	6.38	6.13	6.25	6.31	6.38	7.38	7.19	6.50	6.06
twelve months	6.81	6.44	6.13	6.25	6.31	6.38	7.06	6.94	6.38	6.00
European currency unit										
one month	12.44	8.81	9.25	8.50	8.00	8.31	8.31	8.31	9.75	10.63
three months	12.31	9.19	9.38	8.50	8.50	8.50	8.50	8.50	9.75	10.13
six months	12.00	9.44	9.50	8.63	8.75	8.75	8.81	8.69	9.75	9.75
twelve months	11.19	9.63	9.63	8.75	8.88	8.88	8.75	8.75	9.19	9.13

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1983	1984	1985							1986
	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States companies										
Eurodollar	11.59	11.25	10.49	10.65	10.37	10.53	10.37	10.04	9.68	9.60
Euromark	7.34	6.95	6.91	6.74	6.87	6.74	7.13	6.95	6.73	6.73
Swiss franc	5.83	5.73	5.69	5.69	5.60	5.62	5.66	5.59	5.49	5.47
European governments										
Eurodollar	12.65	12.04	11.17	11.31	11.11	11.18	11.04	10.77	10.52	10.59
Euromark	8.12	7.39	7.38	7.17	6.89	6.96	7.23	7.14	7.03	6.95
Swiss franc	5.63	5.24	5.22	5.16	5.09	5.00	5.02	4.99	4.91	4.82
European currency unit	11.77	10.64	10.17	9.99	10.01	10.14	10.42	10.20	10.23	10.26

Central bank discount rates

at or near end of month

	1982	1983	1984	1985				1986	Current	
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb 7 1986	effective since
United States	8.50	8.50	8.00	7.50	7.50	7.50	7.50	7.50	7.50	May 17, 85
Canada	10.05	9.96	10.09	9.00	8.78	9.10	9.49	10.80	11.47	Feb 6, 86
Austria	4.75	3.75	4.50	4.00	4.00	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	11.50	10.00	11.00	9.50	9.00	8.75	9.75	9.75	9.75	Dec 23, 85
Denmark	10.00	7.90	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	9.00	9.00	8.50	8.50	Jan 1, 86
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	Aug 16, 85
Ireland	14.00	12.25	14.00	10.25	10.25	10.25	10.25	11.75	13.75	Feb 3, 86
Italy	18.00	17.00	16.50	15.50	15.50	15.00	15.00	15.00	15.00	Nov 8, 85
Netherlands	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Aug 16, 85
Norway	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	19.00	25.00	25.00	23.00	23.00	19.00	19.00	19.00	19.00	Nov 27, 85
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	10.50	10.50	10.50	10.50	9.50	9.50	Jan 17, 86
Switzerland	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.38	11.31	11.31	11.31	11.31	12.06	12.06	Jan 9, 86
Japan	5.50	5.00	5.00	5.00	5.00	5.00	5.00	4.50	4.50	Jan 30, 86
New Zealand	13.00	7.50	13.50	27.50	24.80	20.90	n.a.	n.a.	n.a.	Nov, 85
South Africa	15.45	18.50	21.75	15.50	14.50	13.50	13.50	12.50	12.50	Jan 17, 86
Argentina*	10.56	15.10	18.19	5.50	5.00	5.00	5.00	5.00	n.a.	Oct, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.30	8.05	12.11	11.91	11.92	10.81	n.a.	n.a.	n.a.	Nov, 85
Singapore	7.00	7.00	6.75	5.00	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	12.50	13.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	9.00	8.00	8.00	8.00	8.00	8.00	Oct 16, 85

Day-to-day money rates

monthly averages

	1982	1983	1984	1985							1986
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	8.95	9.47	8.38	7.51	7.88	7.90	7.92	7.99	8.05	8.27	8.14
Canada	10.63	8.78	10.50	9.56	9.27	8.97	8.53	8.58	8.81	9.23	9.94
Austria	6.00	5.75	7.63	6.13	6.13	5.38	4.88	5.50	6.75	7.25	6.13
Belgium	9.29	7.39	9.12	8.00	6.97	8.00	7.91	8.26	7.93	6.78	8.36
Finland	11.50	16.70	15.07	13.77	13.60	13.43	13.11	12.78	12.37	11.96	11.64
France	12.88	12.27	10.95	10.22	9.88	9.68	9.57	9.34	8.98	9.01	8.83
Germany	6.15	5.61	5.62	5.52	5.13	4.77	4.59	4.54	4.81	4.70	4.64
Ireland	14.54	12.19	14.50	12.00	11.50	10.75	9.50	9.38	8.50	9.62	12.00
Italy	19.00	17.88	17.25	15.25	15.00	14.53	14.38	14.35	14.59	n.a.	n.a.
Netherlands	5.31	5.84	5.60	6.81	6.63	5.92	5.74	5.87	5.78	5.75	5.75
Norway	11.00	12.30	12.50	13.10	12.30	12.70	11.80	12.25	12.50	12.40	13.00
Spain	20.18	16.77	12.11	13.93	12.39	12.99	10.86	8.99	10.49	9.78	8.44
Sweden	9.31	11.52	11.88	16.00	15.39	15.00	15.00	14.77	13.48	n.a.	12.50
Switzerland	1.25	1.88	1.50	2.00	2.00	2.50	2.00	1.25	0.75	2.00	2.00
United Kingdom	6.70	7.78	6.31	10.17	12.45	11.25	9.89	9.66	14.72	9.72	11.59
Australia	10.87	4.55	10.98	15.07	14.58	15.29	15.83	15.84	16.87	18.37	n.a.
Japan	6.92	6.44	6.41	6.13	6.19	6.17	6.41	6.56	7.40	8.02	6.95
South Africa	14.15	16.06	21.13	18.60	17.50	16.25	15.20	14.90	13.15	12.50	12.00
Argentina*	12.77	14.65	17.75	24.52	5.00	5.00	5.00	4.50	4.50	4.50	4.50
Brazil	150.42	184.69	272.02	239.40	214.19	194.90	230.30	237.20	n.a.	n.a.	n.a.
Hong Kong	9.13	13.90	6.80	6.35	4.95	2.74	4.71	4.38	5.43	6.10	5.93
Korea	13.84	11.40	10.00	9.00	9.50	9.70	9.40	9.60	9.00	9.80	8.50
Philippines	16.12	31.18	15.22	25.95	20.36	18.39	10.25	16.71	15.41	n.a.	n.a.
Singapore	11.45	7.05	6.01	5.18	4.94	4.37	5.34	5.79	4.49	4.53	4.84
Taiwan	9.94	7.65	8.07	6.47	6.79	8.33	6.81	5.30	5.06	4.50	4.25

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985							1986
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	8.15	9.28	7.99	7.05	7.40	7.36	7.13	7.44	7.40	7.25	7.15
Canada	9.80	9.71	9.84	9.33	9.06	8.95	8.75	8.53	8.85	9.24	10.55
Belgium	12.42	11.00	10.90	9.02	9.63	9.63	9.28	8.92	8.72	9.89	9.89
Ireland	15.25	12.01	15.10	11.29	10.38	10.43	9.89	10.14	10.41	11.15	14.32
Italy	19.11	16.95	14.69	14.18	14.08	13.99	13.37	12.90	12.76	n.a.	n.a.
Netherlands	5.63	5.63	5.88	6.75	6.25	5.75	5.75	6.19	5.88	5.69	5.72
Spain	15.28	14.46	12.00	14.00	13.29	12.45	10.66	9.44	9.25	9.25	9.25
Sweden	12.90	11.75	11.63	16.64	15.04	15.00	15.33	14.37	13.28	12.49	11.70
United Kingdom	9.96	9.04	9.33	12.33	11.30	11.31	11.38	11.45	11.33	11.49	12.47
Australia	9.39	8.54	12.27	14.02	14.78	16.17	16.16	16.33	18.60	n.a.	n.a.
Japan	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	7.80	13.50	21.00	24.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	14.62	18.43	21.94	16.00	16.48	15.72	15.22	13.87	12.90	12.99	12.02
Brazil	115.40	179.15	273.03	209.88	223.13	258.13	266.85	231.35	n.a.	n.a.	n.a.
Mexico	57.44	53.78	48.67	62.47	74.99	70.56	n.a.	66.24	70.70	72.98	74.89
Philippines	14.54	15.99	47.14	33.43	29.59	21.60	18.01	17.04	16.63	n.a.	n.a.
Singapore	2.74	2.59	2.91	2.79	2.68	2.79	2.97	2.92	2.89	2.94	2.96

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985							1986
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	8.94	9.89	8.34	7.70	7.85	7.91	7.89	8.07	8.01	8.01	7.91
Canada	9.95	9.87	10.10	9.70	9.25	9.15	8.95	8.70	9.25	9.45	11.25
Belgium	12.52	11.15	10.85	9.02	9.02	9.73	9.48	8.97	8.72	9.89	9.89
France	12.75	12.19	10.69	10.25	10.00	9.75	9.44	9.25	8.27	9.12	8.93
Germany	6.20	6.30	5.75	5.60	5.00	4.65	4.65	4.95	4.80	4.80	4.60
Ireland	15.75	12.19	15.13	11.69	10.50	10.38	10.25	10.25	10.50	12.00	15.25
Italy	19.00	17.88	16.88	14.75	14.38	14.38	14.38	15.00	14.63	14.63	15.50
Netherlands	5.25	6.00	5.75	6.69	6.13	5.75	5.81	6.25	5.94	5.75	5.81
Portugal	15.05	24.11	24.57	24.57	24.65	22.63	22.69	22.69	22.49	n.a.	n.a.
Spain	16.97	18.99	12.16	14.06	13.80	13.03	11.17	10.16	10.13	10.13	10.37
Switzerland	3.88	3.88	5.00	5.38	5.38	4.63	4.69	4.69	4.13	4.75	4.43
United Kingdom	10.50	9.31	9.88	12.44	11.13	11.56	11.50	11.50	11.50	12.75	12.75
Australia	9.85	9.05	12.90	16.50	15.20	16.70	16.50	16.35	18.65	19.75	n.a.
Japan	6.96	6.45	6.33	6.30	6.29	6.30	6.33	7.11	7.55	7.03	6.12
New Zealand	16.75	12.10	15.25	24.00	25.30	26.75	27.20	24.95	20.50	n.a.	n.a.
South Africa	15.26	19.12	22.78	17.35	17.80	16.50	15.25	14.03	13.20	n.a.	12.55
Chile	55.90	20.68	20.68	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	9.25	14.88	8.25	6.81	5.31	6.00	5.63	6.00	6.50	6.50	6.63
Indonesia	18.50	19.50	19.00	17.50	15.50	15.50	15.00	14.50	14.50	15.00	14.50
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.50	9.80	10.30	7.75	7.00	8.50	7.50	7.25	8.25	8.20	8.30
Philippines	15.96	15.61	33.21	24.90	21.25	20.48	16.56	25.11	22.45	n.a.	n.a.
Singapore	8.69	8.44	7.00	5.31	5.13	4.56	6.38	5.81	5.44	5.88	5.53
Taiwan	n.a.	8.07	7.85	6.49	6.70	7.33	5.76	5.13	4.51	4.10	3.17
Thailand	12.25	16.00	12.00	13.00	12.00	12.00	12.00	13.50	15.00	15.50	11.50

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985						1986	
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	8.25	9.70	8.35	7.57	7.95	7.88	7.80	7.80	7.88	7.75	7.75
Canada	9.85	9.82	10.05	9.65	9.20	9.10	8.90	8.65	3.20	9.40	11.20
Austria	6.25	6.50	7.50	6.50	6.38	5.75	5.25	5.63	6.13	6.50	6.25
Belgium	12.25	11.25	10.63	8.75	9.50	9.31	9.13	8.75	8.50	9.63	9.88
Denmark	9.00	6.00	6.00	6.00	5.00	5.00	7.00	7.00	7.00	7.00	7.00
Finland	4.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.25
France	8.24	7.66	7.04	6.69	6.69	6.49	6.44	6.27	6.07	6.12	6.03
Germany	6.00	5.90	5.25	5.15	4.45	4.25	4.25	4.55	4.45	4.40	4.25
Ireland	15.25	11.75	14.63	11.25	10.00	10.00	9.50	9.88	10.25	11.87	15.25
Italy	13.25	13.25	11.64	10.88	10.86	10.86	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	5.38	6.13	5.69	6.63	6.00	5.69	5.69	6.19	5.81	5.81	5.69
Norway	13.50	12.75	12.75	12.25	12.25	12.00	12.00	12.00	12.00	12.00	12.25
Portugal	15.00	21.50	28.00	27.00	27.00	24.00	24.00	24.00	20.00	20.00	20.00
Spain	12.53	12.62	11.64	10.55	10.55	10.49	10.42	10.20	9.90	9.64	n.a.
Sweden	12.15	11.70	11.45	16.57	14.95	14.61	13.90	14.08	12.71	12.18	12.45
Switzerland	3.00	3.50	4.50	5.13	4.63	4.38	4.25	4.50	3.75	4.50	4.25
United Kingdom	10.31	9.31	9.88	12.31	11.06	11.31	11.28	11.44	11.38	11.75	12.75
Australia	10.20	10.40	12.75	15.10	14.80	15.89	16.76	16.20	n.a.	19.00	n.a.
Japan	7.00	6.40	6.38	6.30	6.35	6.41	6.43	7.32	7.93	7.05	6.24
New Zealand	16.50	11.50	15.25	23.00	24.50	25.00	23.00	24.50	21.25	n.a.	n.a.
South Africa	15.25	20.13	22.88	18.00	18.50	17.25	16.00	15.00	13.20	n.a.	12.70
Argentina*	8.50	14.50	31.23	7.00	7.00	7.00	5.30	4.80	5.25	5.40	5.40
Brazil	21.00	23.00	27.00	24.00	23.00	21.00	19.00	18.00	n.a.	n.a.	n.a.
Chile	47.09	20.57	20.68	28.80	29.20	n.a.	15.08	16.79	18.25	20.68	18.25
Hong Kong	9.25	14.88	8.25	6.81	5.31	6.00	5.63	6.00	6.50	6.50	6.63
Korea	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	8.40	7.75	9.58	8.17	8.17	8.17	8.17	7.00	7.00	7.00	7.00
Mexico	52.54	57.15	47.45	59.50	64.35	65.20	65.80	66.80	69.60	72.90	73.60
Philippines	14.10	14.96	31.01	25.95	18.60	17.35	14.26	12.45	12.42	n.a.	n.a.
Singapore	6.25	7.44	6.13	5.07	4.88	4.51	6.38	5.81	5.01	5.26	5.01
Taiwan	7.50	7.00	6.50	6.00	6.00	6.00	5.75	5.75	5.25	5.25	5.25
Thailand	10.00	10.00	13.00	13.00	10.50	10.00	10.50	10.50	10.50	10.50	10.50
Venezuela	15.50	12.00	12.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985						1986	
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	10.61	12.00	11.61	10.62	10.91	10.63	10.67	10.62	10.06	9.49	9.45
Canada	11.69	12.02	11.66	10.88	10.91	10.79	10.96	10.72	10.34	10.04	10.49
Austria	8.81	8.02	8.04	7.87	7.77	7.58	7.34	7.38	7.55	7.61	7.62
Belgium	12.66	11.89	11.56	10.34	10.50	10.59	10.42	9.65	9.43	9.60	n.a.
Denmark	20.14	12.96	14.60	12.16	10.76	10.72	11.23	10.79	10.50	9.67	10.12
Finland	10.64	11.16	10.73	10.46	10.48	10.42	10.35	10.36	10.50	10.58	9.74
France	15.40	13.96	12.70	12.12	11.87	11.96	11.97	11.59	11.22	11.33	n.a.
Germany	7.90	8.38	7.17	7.02	6.88	6.52	6.55	6.90	6.91	6.57	6.64
Ireland	14.54	14.25	14.90	12.71	11.20	11.74	11.92	11.84	12.10	11.84	11.92
Italy	19.70	17.69	14.52	13.87	14.08	14.04	13.74	13.75	13.70	13.79	n.a.
Netherlands	8.16	8.58	7.72	7.39	7.23	6.92	6.87	7.03	7.01	6.96	6.81
Norway	13.32	12.50	12.00	12.70	12.70	12.70	12.70	12.70	12.70	13.10	13.10
Portugal	16.63	22.11	22.23	22.23	20.34	20.14	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	15.46	17.25	13.93	13.79	14.48	14.37	13.92	12.58	12.12	12.30	12.35
Sweden	13.01	12.30	12.04	13.48	12.98	13.22	13.54	13.40	13.10	12.11	12.23
Switzerland	4.23	4.53	4.60	4.78	4.80	4.69	4.66	4.57	4.53	4.52	4.47
United Kingdom	10.62	9.94	10.25	10.45	10.16	10.22	10.15	10.16	10.17	10.35	10.56
Australia	13.00	13.65	13.50	13.50	13.30	13.95	13.80	14.55	15.05	14.85	n.a.
Japan	7.96	7.45	6.36	6.53	6.38	6.46	6.36	6.55	6.84	6.10	6.10
New Zealand	12.84	10.50	16.90	17.33	17.86	17.60	18.35	18.10	17.00	n.a.	n.a.
South Africa	11.31	13.64	16.55	15.15	15.90	16.20	16.65	17.50	17.50	n.a.	17.57
Philippines	13.64	14.47	18.54	17.00	13.29	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Venezuela	15.00	13.50	14.00	12.50	12.00	12.00	12.00	12.00	12.00	12.00	12.25

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985							1986
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	11.50	11.00	10.75	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Canada	12.50	11.00	11.25	10.50	10.50	10.25	10.25	10.00	10.00	10.00	11.50
Austria	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.00	9.00	9.00	9.00
Belgium	15.50	13.75	14.00	12.00	12.00	12.50	12.00	11.50	11.00	11.50	12.25
Denmark	14.00	10.00	10.50	10.50	9.50	9.50	8.50	8.50	8.50	8.50	8.50
Finland	3.95	10.18	10.68	10.37	10.40	10.43	10.42	10.43	10.40	10.40	10.37
France	12.25	12.25	12.00	11.25	10.85	10.85	10.85	10.85	10.60	10.60	10.60
Germany	8.75	7.75	7.75	7.75	7.75	7.25	7.25	7.25	7.25	7.25	7.25
Ireland	16.50	13.75	15.75	14.00	13.25	13.50	12.50	12.50	12.50	12.50	13.50
Italy	20.75	18.75	18.00	17.00	17.00	17.00	17.00	16.50	16.00	n.a.	n.a.
Netherlands	6.25	7.00	6.25	7.75	7.25	6.25	6.25	6.38	6.50	6.25	6.25
Norway	14.50	13.50	13.00	12.70	12.90	13.10	12.70	12.90	12.80	12.40	13.50
Portugal	23.50	30.00	29.00	29.00	29.00	26.50	26.50	26.50	22.50	22.50	22.50
Spain	16.90	17.31	15.84	15.53	15.53	15.49	15.36	14.98	14.80	14.75	14.69
Sweden	15.00	13.50	14.50	16.25	15.25	15.25	15.25	14.75	14.75	15.05	14.00
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	10.00	9.00	9.50	12.50	11.50	11.50	11.50	11.50	11.50	11.50	12.50
Australia	15.00	12.75	14.00	17.75	17.75	17.75	18.50	18.50	19.50	21.00	20.25
Japan	6.28	5.89	5.70	5.69	5.69	5.69	5.69	5.69	5.69	5.75	5.70
New Zealand	13.00	11.00	14.00	25.00	24.00	22.00	23.00	22.50	21.50	n.a.	n.a.
South Africa	18.00	20.00	24.00	22.00	21.00	21.00	19.50	17.50	16.50	16.50	15.50
Argentina*	9.00	15.50	32.05	8.50	8.50	9.00	5.75	5.80	7.25	7.30	7.00
Brazil	23.81	24.00	31.00	25.00	24.56	21.00	19.00	19.00	n.a.	n.a.	n.a.
Chile	64.11	30.90	60.82	47.28	51.47	n.a.	35.53	32.38	31.88	33.34	33.46
Hong Kong	10.50	13.50	11.00	8.00	6.00	7.00	7.00	7.00	7.00	7.00	n.a.
Indonesia	22.00	13.75	23.50	21.50	20.75	20.25	19.50	19.00	19.00	18.75	18.50
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.50	11.00	12.00	11.00	11.00	11.00	11.00	10.50	10.50	10.50	10.50
Mexico	46.12	56.44	47.54	54.92	57.00	59.06	60.98	62.29	63.39	65.66	9.50
Philippines	18.00	18.00	44.00	32.00	27.00	23.00	n.a.	n.a.	15.50	n.a.	n.a.
Singapore	9.33	8.98	9.40	8.28	8.03	7.28	7.20	7.23	7.20	7.20	7.20
Taiwan	10.75	10.25	10.00	10.00	10.00	10.00	9.75	9.75	9.50	9.50	9.50
Thailand	16.00	16.00	16.50	16.50	16.50	15.50	15.50	15.50	15.50	15.50	15.50
Venezuela	17.00	16.00	16.00	14.00	14.00	14.00	14.00	14.00	13.00	13.00	13.00

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985							1986
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	11.75	12.63	12.25	11.25	11.65	11.38	11.50	11.25	10.75	10.15	10.38
Canada	12.74	12.89	12.42	11.27	11.62	11.49	11.56	11.26	10.98	10.74	n.a.
France	15.86	14.35	12.94	12.19	12.06	12.17	12.36	12.03	11.84	11.65	11.35
Germany	8.20	8.30	7.20	7.10	7.10	6.90	6.80	6.90	7.00	6.90	n.a.
Netherlands	7.80	8.51	7.51	7.41	7.28	7.28	n.a.	n.a.	n.a.	n.a.	n.a.
Norway	14.13	13.25	12.75	13.50	13.50	13.50	13.50	13.50	13.50	14.00	n.a.
Spain	17.10	20.07	18.32	16.46	16.27	16.37	16.47	15.81	15.80	14.92	14.87
Sweden	13.37	12.21	12.33	13.75	13.25	13.25	13.50	14.00	13.50	13.25	13.21
Switzerland	5.80	4.92	5.09	5.15	5.09	5.05	5.02	4.99	4.99	4.93	4.78
United Kingdom	12.34	11.57	11.64	11.54	11.22	11.22	11.17	11.14	11.18	11.47	11.59
Japan	7.55	7.09	6.21	6.63	6.55	6.46	6.36	6.26	7.56	6.90	6.70
Korea	16.00	14.20	15.00	14.30	14.10	13.90	13.80	13.70	13.60	13.80	13.00
Venezuela	18.00	18.00	18.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.50

Key to data in tables

I. International markets

Data on the *international banking market size* are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An *international bond issue* may be either a Eurobond issue or a foreign bond issue. A *Eurobond issue* is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A *foreign bond issue* is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibles, bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An *international bank credit* may be either a Eurocurrency credit or a foreign credit. A *Eurocurrency credit* is one denominated in a currency that is foreign to the country of the bank office extending the credit. A *foreign credit* is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extending the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly*.

II. Domestic markets

Central bank discount rates

Rates shown are the official discount rates with the exception of:

Ireland — Short Term Facility rate.

South Africa — discount rate for 90-day banker's acceptances.

United Kingdom — rate of discount for outright purchases of 15- to 33-day bank bills.

Day-to-day money rates

Argentina — 7-day interbank money regulated by the central bank.

Austria — day-to-day interbank rate.

Australia — effective interest rate in the official short-term money market.

Belgium — day-to-day loan rate in the call money market.

Brazil — interbank overnight money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48-hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

Taiwan — private interbank overnight loan rate.

United Kingdom — call money.

United States — federal funds rate.

Treasury bill rates

Australia — 13-week Treasury notes at tender.

Belgium — new issue of 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month central bank exchequer bills at tender.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — 6-month Treasury bills at tender until March 1984. As of April 1984, 3-month Treasury bill repos reported by the Bank of Spain (average of quotations during the month).

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — buying rate for 90-day bank accepted commercial bills.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — central bank 60-day fixed rate promissory notes (PDBC) at tender.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month "gensaki" rate.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month banker's acceptances.

South Africa — 90-day banker's acceptances.

Spain — 3-month interbank rate reported by the Bank of Spain (average of quotations during the month).

Switzerland — 3-month interbank deposits.

Taiwan — 90-day banker's acceptances.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the central bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — negotiable 3-month time deposits of more than HK\$500,000.

Ireland — 3-month deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit until September 1983. New series as of October 1983, 3-month promissory notes.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — weighted average interest rates on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore — 3-month certificates of deposit.

Key to data in tables — continued

South Africa — 3-month negotiable certificates of deposit.

Spain — deposits over 6 months and less than 1 year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — maximum rate for 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposit for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — secondary market yield for 10-year Treasury bonds.

Belgium — Belgium National Bank secondary market average yield on central government bonds of more than 5 years' maturity quoted on Brussels Stock Exchange.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — INSEE secondary market weighted average yield of public sector bonds with a remaining maturity of 10 years or more.

Germany — Frankfurter Allgemeine Zeitung 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9 years or more.

Japan — average yield of national government bonds with maturities of 10 years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for central bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — Bank of Spain secondary market weighted average yield of several central government issues with more than 2 years' maturity (average of quotations during the month).

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — overdraft rate. Maximum indicator rate applying to loans of A\$100,000 or more for major trading banks.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime lending rate set by the Hong Kong Association of Banks.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — private banks' average interest rate for 1-year loans reported by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market weighted average yield of industrial bonds with a remaining maturity of more than 3 years.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6%-6.5% corporate bonds until December 1981. As of January 1982, CBS secondary market weighted average yield on all commercial bank issues with a quotation between 92% and 103%.

Norway — 5.75% Da'len Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — Bank of Spain secondary market weighted average yield of several corporate issues with more than 3 years' maturity (average of quotations during the month).

Sweden — Central Statistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stocks with an average of 25 years to maturity.

United States — Salomon Brothers index of new issues yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

World Financial Markets

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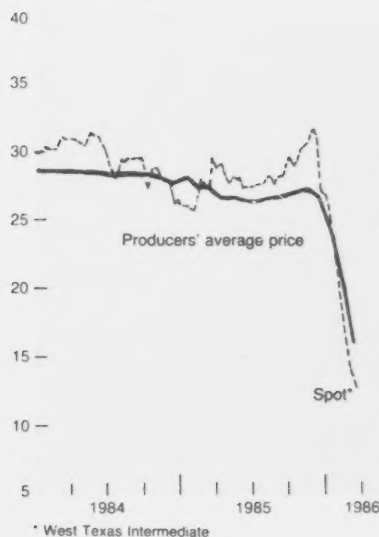
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Chart 1

Oil prices
dollars per barrel



Oil and the dollar: risks and opportunities

The last several months have witnessed dramatic changes in the key international prices — for oil, capital, and the dollar. In less than four months crude oil prices have plummeted more than half in the bellwether spot and forward markets (see Chart 1). Their message has inspired a certain euphoria in the bond and stock markets — helped along by perceptions of a declining trend in U.S. budget deficits, with or without Gramm-Rudman. Notwithstanding some stickiness in U.S. short-term interest rates, yields on long-term U.S. Treasury bonds have plunged below 8% for the first time since 1978 and now are 275 basis points lower than last autumn.

The currency markets have interpreted the oil price collapse as bullish for Japan and Europe, and in turn bullish for the yen and mark while bearish for the dollar. From its peak of February 1985 the dollar now has fallen over 30% against both the yen and mark (see Table 1). However, the weakness of Canada's currency, which receives a 30% weight in the index, has held the dollar's decline on a trade-weighted basis to 23% from the peak and to only 12% from its 1984 average.

The price shocks of 1986 warrant

reassessment not only of the global economic and financial outlook but also of policy advice. This article first focuses on the forces now at work to rectify the profound demand-supply-capacity imbalance in oil markets; second, given the present shortfall of industrial-country economic activity below potential, on the near-term implications of the declines in oil prices, interest rates, and the dollar for inflation and economic growth; and third, on how much further the dollar may have to fall to meet the medium-term imperative for correction of the yawning U.S. trade and current account deficits, as well as the outsize surpluses of Japan and Germany.

Lower oil prices open up a rare window of opportunity for the industrial countries. At the economic summit in Tokyo this spring, and through the ongoing forum of the Group of Five (G-5), they should be working to exploit, rather than stifle, the new opportunities for stepped-up and noninflationary economic growth. At the same time, they have to promote much-needed reduction of the U.S. external imbalance. These objectives are achievable in principle. But they will go unmet in practice unless the new pragmatism embodied in U.S. Treasury Secre-

Table 1

Dollar exchange rates

units per dollar, except as noted

		% change from			
	Mar 21, 1986	1984 aver- age	Feb 25, 1985	Dec 31, 1985	
Nominal effective	108*	-12	-23	-6	
Real effective	102*	-14	-24	-7	
Dollar vis-à-vis					
Japanese yen	176	-26	-33	-12	
German mark	2.25	-21	-35	-8	
French franc	6.92	-21	-34	-8	
British pound	1.50**	-11	-30	-4	
Italian lira	1530	-13	-29	-8	
Canadian dollar	1.40	8	0	0	

*1980-82=100.

**Dollars per pound.

tary Baker's twin initiatives last fall is carried forward into equally pragmatic reconsideration of existing policy positions in Japan and Europe, not least to assist restoration of growth in Latin America and other problem LDCs.

Oil prices

In thin spot and forward trading, oil prices fell below \$12 in early March from over \$30 last November. Prices realized by producers have declined more gradually, from over \$27 to an average of around \$16 during the same period. In constant dollars, producer prices now are under the average levels of 1974-78 following the first oil shock (see Chart 2).

The break in prices was sudden but not unexpected. Oil production capacity has exceeded demand for over five years — currently by some 10-11 million bpd, equivalent to almost 25% of 1985 free world consumption. Until last year, the excess was withheld from the market by OPEC production cutbacks, formalized through quotas.

This strategy contained the decline in oil prices during 1981-85, but also caused the 1986 break in prices. The OPEC attempt to maintain prices at high levels — strengthened further in real terms by low world inflation and by the dollar's appreciation — widened the gap between oil demand and production capacity. Free world oil consumption fell slightly between 1982 and 1985. With non-OPEC supplies growing there was less and less room for OPEC production (see Table 2). By 1985 its crude output was down to 16 million bpd, almost 50% below the 1979 peak and less than 60% of capacity (see Chart 3); OPEC met only 38% of free world consumption, down from 60% in 1979. As a result, despite import cutbacks, the over \$100 billion

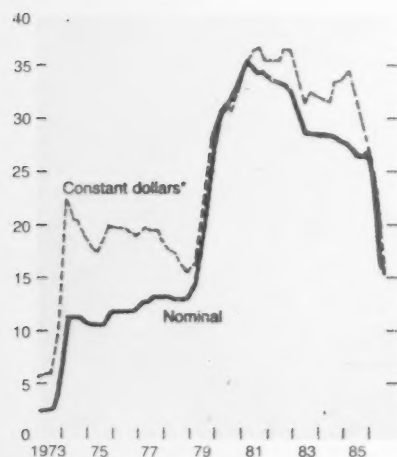
OPEC surplus of 1980 was transformed into a deficit from 1982 onward.

Saudi Arabia bore the brunt of the reduction in total OPEC output by offsetting above-quota production elsewhere. By mid-1985, Saudi output was only 2.5 million bpd, 8 million bpd below the 1980-81 peak; it met just 6% of free world oil consumption, less than one-third its 1981 share; it held 60% of world excess capacity; its current account had swung from surpluses on the order of \$40 billion in 1980 and 1981 into deficits of over \$15 billion per annum since 1983.

Altogether, OPEC policies accomplished the extraordinary feat of squeezing out the lowest-cost oil producer with the largest world oil reserves to the benefit of high-cost producers with limited reserves. Had the post-1981 demand trends and OPEC strategy persisted, Saudi Arabia effectively would have found itself out of the oil-exporting business within a few years. Saudi Arabia therefore changed its oil policy. Last June it announced that it would no longer be the swing producer, but would instead seek to produce its full quota of 4.3 million bpd. It abandoned its long-standing policy of fixed crude oil prices, in favor of flexible prices determined on a netback basis by market demand for refined petroleum products. The new policy enabled Saudi Arabia to rebuild market share, reaching its quota by late 1985 and prompting the rest of OPEC to abandon all production restraint. The break in prices ensued.

The future of oil prices depends on the pace of reduction in the structural imbalance among demand, supply, and production capacity. The pace will be vitally influenced by the policy responses of the major oil-consuming and producing governments. Their responses still are far from clear.

Chart 2

Oil prices: in nominal and constant dollars
dollars per barrel

*At constant prices of early 1986, deflating the nominal price by OECD wholesale prices of manufactures in dollar terms.

Table 2

Oil demand and supply*

millions of bpd

	1979	1982	1985	1986
Consumption	52.4	46.0	45.6	46.2
OECD	41.6	34.6	34.0	34.5
LDCs	10.8	11.4	11.6	11.7
Stock changes	1.3	-1.1	-0.1	0.0
Non-OPEC supply	22.1	25.3	28.3	28.2
OPEC capacity	35.2	30.0	27.0	27.0
OPEC production	31.7	19.8	17.3	18.0
Crude oil	30.9	18.6	16.0	16.5
% of capacity	88	62	59	61

*Excluding Communist countries. Only their net oil exports to the West are included in non-OPEC supply.

Demand is quite insensitive to price changes in the short term. When, as in recent months, price declines engender expectations of further declines, oil inventories are drawn down and overall oil demand initially falls. However, oil demand responds positively to price declines after a time and is affected further by economic growth rates and policies in major consuming regions — particularly the industrial countries that account for 75% of free world oil consumption. As noted, between 1982 and 1985, despite annual economic growth of 3.2% in the industrial countries, free world oil consumption declined slightly. At the much lower prices of today, there is bound to be a positive response in oil consumption.

Recalling past experience, the decade prior to the first oil shock witnessed oil consumption growth in excess of 7% per annum — based on OECD economic growth averaging 5% per annum and oil prices in constant dollars more than 60% below present levels. Such a rebound in oil consumption does not appear likely today, not only because of higher prices and lower growth rates, but mainly because of significant structural changes in oil and energy consumption. Between the two oil shocks of the 1970s, when real oil prices fluctuated just above today's levels and OECD growth was 3% per annum, oil consumption increases averaged 2½%. Under present conditions, should constant-dollar producer prices remain in the \$16-\$18 range for some time to come and OECD growth average slightly above 3%, oil consumption increases of just under 2% per annum can be expected. Such increases, without any changes in supply, would eliminate the excess production capacity in about a decade.

Supply also takes time to respond to price changes, with the decisions

of certain oil producers especially influential. Production costs are not uniform, nor are excess production capacity and reserves distributed evenly. In general, industrial countries are the highest-cost oil producers, but their production runs at capacity and they have less than 10% of free world oil reserves. The Middle East countries have the lowest production costs, but they hold over 80% of the present excess capacity and 65% of free world reserves. (The rest of OPEC holds the remaining excess capacity.) In all regions, production costs in the existing fields that determine short-term supply are significantly below those of investment in the new production facilities that determine long-term supply. For example, current oil production costs are mainly under \$12 per barrel in the industrial countries, with the bulk at \$7-\$8 and below; in the Middle East, costs are well under \$5. The cost of developing new oil production in the industrial countries exceeds \$15 and, in many cases, \$20 per barrel.

Very low oil prices would swiftly eliminate certain high-cost non-OPEC production from existing fields. Future non-OPEC production would be curtailed as well, because of the adverse effect of low prices and an uncertain environment for oil investment. Both these market-induced downward supply adjustments already are under way.

Motivated by economic self-interest, oil producers also may implement new voluntary production cuts. The price consequences of their production decisions now affect individual producers directly: the more they produce, the lower world oil prices may sink and the greater their risk of revenue loss. That risk formerly was minimized by Saudi Arabia's practically automatic support of prices: other oil exporters, OPEC and non-OPEC, could raise output with near-impu-

Chart 3

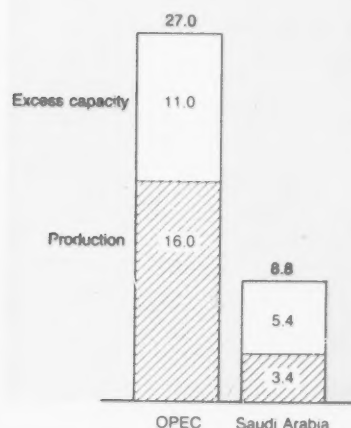
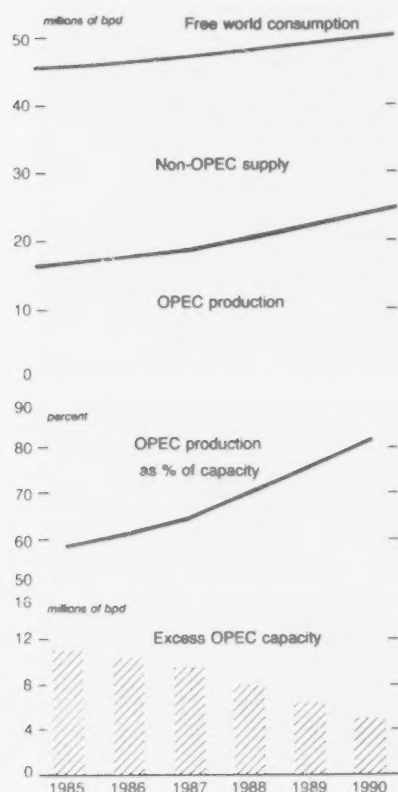
OPEC production and excess capacity in 1985
 millions of bpd; crude oil only


Chart 4

Oil outlook: consumption, supply and OPEC capacity



nity. Now, by contrast, the price fall has been so large that no oil producer outside the Arabian Peninsula has the capacity to bolster revenue successfully through higher production. Despite some pickup in export volume, the 40% drop in producer prices so far this year has reduced oil exporters' annual revenues by about \$70 billion.

The production-versus-price choice may be illustrated for the nine OPEC members outside the Arabian Peninsula. Were they to keep output at the high level of 11 million bpd reached last December, prices most likely would slip to the under-\$12 lows already reached by the spot market. Oil exports for these countries would be \$38 billion annually, less than half those of 1985. A 10% cut in their production, which would bring it near the 1985 OPEC quota, could help stabilize producers' prices near the present level of \$16. This would yield annual revenues of almost \$44 billion. If the production cutbacks were maintained for some time, market confidence and inventory movements would change direction. Producer prices could rebound to \$18 or above, further raising revenues.

In sum, the risk of further serious revenue loss is likely to push oil exporters into organized action to withhold supply. Any new production-sharing agreement, covering OPEC and probably some non-OPEC oil exporters as well, requires Saudi Arabia's participation for credibility and viability. However, Saudi participation this time is likely to be much on a par with other oil exporters, not as swing producer. Moreover, Saudi Arabia now holds a credible threat over its partners against their failure to observe any new arrangement.

Even with the expectation of some production restraint by oil exporters, any firming of prices that may emerge is likely to be moderate until

the demand-production-capacity imbalance is reduced significantly (see Chart 4). A reasonable working assumption may be for prices to average \$17-\$18 in 1986-87 and rise but slowly thereafter. In the late 1980s, OPEC production may approach 80% of present capacity, compared with less than 60% in 1985, and prices could be up to around \$20-\$25 — in real terms, still below their 1985 level.

Industrial-country inflation and growth

With oil prices at \$17 per barrel, down \$10 from last year, almost all industrial countries can look forward to reduced inflation and stronger economic growth. Some of the effects are summarized in Table 3. Nonetheless, the fall in the dollar also must be factored into the outlook since, of itself, it must be expected to add to U.S. inflation and subtract from economic growth in Japan and Europe.

The counterinflationary fallout of \$17 oil should shave an average of 1.4% from industrial countries' consumer prices directly, or as much as 2.1% allowing for sympathetic declines in wage pressures and other prices. Most of the benefits should be apparent during 1986. They are a major boon. Despite the dollar's fall, U.S. consumer price inflation this year should be under 2% — the lowest since 1965. For Japan and most of Europe, the oil price reduction reinforces the effects of currency appreciation. Outright deflation in consumer prices is a real possibility for Germany (see Table 4). Beyond 1986, even after the oil-price impact fades, inflation rates should be moderated by reduced pressures for catch-up wage hikes or other cost increases.

Subdued inflation provides the clearest explanation for the dramatic rally in the U.S. bond markets.

Table 3

1985-86 impacts of lower oil prices

assumes 1986 oil prices average \$17 per barrel, down from \$27 in 1985

	On real GNP (as % of 1985 GNP)*	On consumer prices (% points)**
United States	0.6	-2.0
Canada	-0.5	-1.6
Japan	1.5	-1.7
Germany	1.5	-1.9
France	1.4	-1.9
United Kingdom	-1.4	-1.8
Italy	2.3	-1.8
7 major industrial countries	0.8	-1.9

*Partial impacts, referring solely to the net increase in real domestic spending from the higher real consumption and investment triggered by the decline in the cost of oil imports less the offset from reduced sales to foreign oil exporters. Excluded are the effects of oil-price-induced changes in exchange rates and government policies; the "wealth effects" on spending induced by changes in financial asset values; and the feedback from the boost to world trade resulting from higher domestic spending. These excluded effects may cause the final impacts to be more positive for virtually all industrial countries, shifting Canada and the United Kingdom into the plus column.

**Due to the decline in oil and other fuel costs. No allowance is made for any induced deceleration in nominal wage increases.

Table 4

Consumer prices percent change, Dec-Dec

	1985	1986*	1987*
United States	3.7	2.0	3.5
Canada	4.4	3.5	3.5
Japan	2.3	0.6	0.6
Germany	1.8	-0.4	0.5
France	4.7	2.5	3.0
United Kingdom	5.7	3.8	4.8
Italy	8.5	5.7	5.0
7 major industrial countries	3.7	1.9	2.8

*On the assumptions of the G-5 cooperative scenario in Table 9, including oil prices at \$17 per barrel in 1986.

However, there has been relatively little softening in short-term U.S. money market rates. Nor have short-term rates abroad come down in one-for-one correspondence with the apparent reduction in inflation expectations. Consequently, yield curves have flattened and short-term interest rates in *real* terms have actually risen this year (see Chart 5). The cuts in major central banks' discount rates during early March are a welcome first step toward undoing that rise. But it will require further falls in short-term nominal interest rates to reestablish the monetary posture that prevailed earlier.

As for economic growth, a \$10 per barrel fall in oil prices boosts real disposable incomes by roughly 0.6% in the industrial countries taken as a group. The prime beneficiaries are consumers and energy-using industries. Consumers generally respond quite quickly to increased purchasing power of their nominal wages and financial assets. On the production side, energy-using firms should realize substantial gains in sales values and profits. Still, not all industrial countries benefit equally. Table 5 compares prospective savings on net oil import bills. Italy is the winner in terms of import savings relative to GNP, followed by Germany, France, and Japan. Britain and Canada, as net oil exporters, lose out. Although the United States is the world's largest net oil importer, its oil imports are small in relation to GNP. Consequently, it will see a correspondingly modest boost to real incomes and economic growth.

The positive income and growth impact of the fall in oil prices is subject to several offsets. The first comes from the adjustment challenge facing energy producers and those who sell to them. For the U.S. economy, with its large energy sector, the daily cutbacks in petroleum investment plans, plus tales of gen-

eralized stress in the Sunbelt, suggest initial weakness in overall economic activity. Much the same may prove true for Canada, perhaps too for Britain.

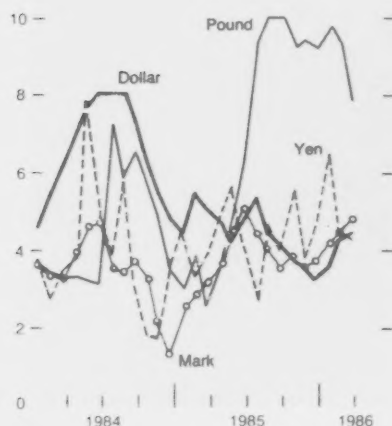
A second offset lies in the further prospective decline in industrial countries' sales to oil-exporting countries. Given that such sales already run much lower today than they did five years ago, the offset is unlikely to exceed 0.2% of industrial-country GNP on average, with Italy the most affected. Of course, for Britain the offset aggravates terms-of-trade losses. The estimates in Table 6 are based on the mechanical assumption that oil revenue shortfalls reduce OPEC imports by 15% below 1985 levels, Mexico's by 18%. Actual import cuts by oil exporters may well prove smaller, since the net debtors among them will enjoy significantly lower interest payments.

A third offset lies in the likely bias of policy responses. Governments are unlikely to act in reinforcement of the stimulative effects of the present oil shock. In their eagerness to consolidate counterinflationary gains on an enduring basis, some central banks may take the opportunity of the present dip in inflation to lower their monetary sights. Moreover, persuaded that their economies now are set to revive, Japan and Germany — long under pressure to pursue more stimulative fiscal or monetary policies — may reject or delay relaxation. Finally, perceived conservation, security, and revenue needs may well lead to increased energy or oil taxes in many jurisdictions. Already, Britain, Denmark, Norway, and Switzerland are moving to hike certain oil taxes. With the passage of time, several other European countries, together with not a few U.S. state governments, are likely to follow suit. If the proceeds of such tax hikes are used for revenue enhancement,

Chart 5

Real interest rates

3-month Eurocurrency deposit rates
deflated by consumer prices*
in percent



*The inflation adjustment uses centered 6-month rates of change in consumer prices, including projections for 1986 when necessary.

rather than being substantially spent or else rebated to business and consumers, they will serve to tighten fiscal policy.

It seems improbable that these three sources of offset will combine to negate altogether the initial stimulus to industrial-country growth from lower oil prices. More likely, secondary gains will gradually arise in output, investment, employment, and incomes in most economic sectors — provided that oil prices are expected to stay down rather than snap back to their former heights. However, in the absence of significant policy changes in an expansive direction, the primary and secondary oil-price benefits to economic growth will be quite mild. Italy should benefit most, with growth higher by a little over 1% in each of 1986 and 1987. For Germany, France, and Japan, the gains are less, but still could amount to 1.5% or so for the two years taken together — more than double the likely U.S. benefit. However, tertiary benefits should occur beyond these first two stages, since the surge in financial asset values will tend to lift spending. Moreover, spending impulses in the individual countries will give a self-reinforcing boost to world trade.

No evaluation of the growth outlook should highlight oil price changes to the neglect of the past year's major changes in exchange rates. U.S. growth should benefit considerably from the decline in the dollar. Even without further depreciation, last year's 1.2-percentage-point negative contribution of net exports to real GNP growth on a fourth-quarter to fourth-quarter basis is expected to turn to positive contributions of 0.6 percentage points both this year and next. Conversely, Japan and Germany are in line for sizable negative contributions to their own growth. Britain may realize net gains to the extent that

world trade gains and sterling's effective depreciation offset the negative consequences of the drop in oil prices. Canada is in a somewhat similar position.

At this stage, a cautious view is warranted of the overall prospective pickup in industrial-country economic growth that will flow from lower oil prices, lower nominal interest rates, and currency adjustments. U.S. growth has opened 1986 on a rather feeble note, although the combination of lower oil prices and a lower dollar suggests a stronger growth profile as the year proceeds, perhaps lasting into 1987 depending in part on the actual severity of budget deficit correction (see Table 7). In 1986 for Japan, and in 1987 for both Japan and Germany, currency appreciation and taut policies may outweigh the plus from low oil prices. Japan's current policies seem likely to hold its growth below potential both this year and next. Although Germany should experience relatively strong growth of 4% or so this year, together with some reduction in unemployment, its prospects for 1987 are not sufficiently bright to ensure further reduction in joblessness. Accordingly, in not one of the major countries can policymakers rest easy that their cherished dreams for adequate, sustained, and noninflationary growth will actually be realized.

Has the dollar fallen enough?

The declines in oil prices and the dollar have important implications for trade and current account adjustment (see Table 8). Much of the counterpart to last year's \$118 billion U.S. deficit on current account (3% of GNP) appeared as current account surpluses of \$49 billion for Japan (4% of GNP) and \$13 billion for Germany (2% of GNP). Counting only direct effects, this year's fall in oil prices should cut the red ink on

Table 5

Net oil import savings*

	\$ billions	As percent of 1985 GNP
United States	16.5	0.4
Canada	-1.0	-0.3
Japan	14.9	1.1
Germany	7.7	1.2
France	5.7	1.1
United Kingdom	-4.0	-0.9
Italy	6.6	1.6
7 major industrial countries	46.4	3.6

* Assumes oil prices average \$17 per barrel, versus \$27 in 1985. No allowance is made for changes in oil import volume.

Table 6

Industrial-country sales to major oil exporters*

	1985 sales, \$ bil.	Projected shortfall due to lower oil-exporter revenues**	
		\$ bil.	Percent of GNP
United States	26.1	4.33	0.1
Canada	1.4	0.22	0.1
Japan	14.0***	2.13	0.2
Germany	9.3	1.43	0.2
France	7.5	1.14	0.2
United Kingdom	6.7***	1.02	0.2
Italy	7.2****	1.09	0.3
7 major industrial countries	72.2	12.03	0.2

*OPEC and Mexico.

**Assumes oil prices average \$17 per barrel, versus \$27 in 1985.

***Based on data for January through November, 1985.

****Based on data for January through October, 1985.

U.S. trade by some \$17 billion per annum, but may save considerably less on current account if petroleum direct investment earnings fall. Japan and Germany can expect to save \$15 billion and \$8 billion on their respective oil import bills.

The dollar's decline has yet to deliver visible benefit to the U.S. trade figures: the deficit widened to a new all-time high of \$17.5 billion in January, or over \$200 billion at an annual rate. No doubt this figure was inflated by initially adverse J-curve effects. Still, there is a long way to go to achieve the deficits of \$50 billion or less on trade account that would seem sustainable on political grounds — in the interest of fending off protectionist forces — or the current account deficits of similar magnitude that will be necessary to stabilize the U.S. net external debt position, relative to GNP, within a few years.

What fresh steps are needed to ensure that adequate adjustment of the U.S. external accounts will come to pass within an acceptable time frame? The need for further steps is strongly confirmed by the baseline, Case 1, analysis summarized in Table 9. This assumes that oil prices settle at \$17 per barrel indefinitely, the dollar remains at present levels, and neither U.S. nor foreign governments revamp their present macroeconomic policy stance. On this basis, the U.S. trade deficit would come down for a time but bottom out above \$100 billion per annum.

The improvement is limited for several reasons. First, the dollar's fall has occurred from a very high and short-lived peak. Its implications for U.S. competitiveness are better judged with the realization that, in real effective terms, the dollar has only recently come down close to its average level of 1980-82, the most recent period of modest U.S. trade deficits and approximate current account balance.

Second, many foreign exporters, having expended the investment to build market penetration while the dollar was high, still find their U.S. sales profitable with a lower dollar. Similarly, many U.S. importers and multinationals will not lightly revise long-term commitments to foreign-sourced products, especially where broad strategic alliances have been formed with foreign partners.

Third, ongoing structural change in the world economy is converting areas of former U.S. competitive strength to areas of intractable weakness; dollar declines are unlikely to bring back the \$25 billion and rising U.S. agricultural trade surpluses that were taken for granted five years ago.

Fourth, the dollar's decline has been concentrated vis-à-vis the yen and European currencies. Although it helps U.S. exporters compete worldwide with Japanese and European rivals, a lower dollar has little direct bearing on the 56% of U.S. imports sourced from Canada, Mexico, and the developing countries. Just as much U.S. government spending is off-limits to budget cutters, many of the most significant U.S. trade partners either are in no financial position or are otherwise implausible candidates to cut back their sales to the United States. For example, by and large, the newly industrializing countries (NICs) link their currencies to the dollar. In many product lines, production displaced from Japan and Europe by a more competitive dollar is more likely to be relocated to the NICs than to the United States.

As for the U.S. current account deficit, the baseline analysis shows that steeply rising net U.S. interest payments to foreigners would allow no lasting reduction: at \$120 billion in 1990, the deficit would be no narrower than in 1985. Moreover, although U.S. inflation would stay low, unemployment would be unlikely to

Table 7

Real GNP percent change

	1985	1986*	1987*
United States	2.2	3.0	3.0
Canada	4.5	3.4	3.0
Japan	4.6	3.2	2.9
Germany	2.4	4.1	2.8
France	1.2	2.8	2.8
United Kingdom	3.3	2.8	2.7
Italy	2.2	3.5	3.0
7 major industrial countries	2.7	3.1	2.9

*On the assumptions of the G-5 cooperative scenario in Table 9, including oil prices at \$17 per barrel in 1986.

come down materially given the contractionary fiscal policy now coming into place. Likewise, foreign economies would make little headway toward working off their potential output gaps. Altogether, this baseline case achieves neither adequate nor viable resolution of today's principal international payments imbalance.

The failings of the Case 1 approach could jeopardize confidence among dollar asset holders, a risk already stirring concern at the Federal Reserve. In the quite different circumstances of 1978, when an inflationary monetary policy was the basic issue, a dollar defense package was mounted that steadied the dollar without severely restrictive consequences for the real economy. Today, an effective defense of the dollar at its present levels would surely dictate higher U.S. interest rates — in real, if not in nominal terms. Because real rates already are high and major sectors of the U.S. economy are under stress, still-higher real rates could well tip the economy as a whole into recession. Recession is one classical mechanism for correcting trade deficits. When prescribed for small countries, recession therapy may have little adverse consequence for the outside world. By contrast, a U.S. recession would be virtually certain to precipitate an economic slowdown abroad. Case 2 in Table 9 indicates that a U.S. recession as severe as the 1980-82 episode would be necessary to get the trade deficit back close to balance. The U.S. unemployment rate would surge to utterly unacceptable levels above 13%. Besides, for developing countries, any slowdown in industrial-country activity coupled with increased real interest rates would be seriously harmful.

Case 1 proves inadequate and Case 2 unacceptable, in part because both foreswear further dollar

depreciation — precisely the remedy that many U.S. observers judge to be the low-cost quick-fix solution to the U.S. trade imbalance. Case 3 in Table 9 indicates that the U.S. trade deficit could be cut by about two-thirds as early as 1988 by successive devaluations dropping the dollar forthwith some 15% below *current* levels on a trade-weighted basis for the balance of this year, followed by a further 15% by 1988. As explained above, givebacks of currency competitiveness by Japan and Europe must necessarily contribute the great bulk of trade-weighted dollar depreciation. Consequently, their currencies generally would have to rise considerably more than those of other U.S. trade partners.

Unfortunately, as the 1970s experience demonstrated, devaluation is not a low-cost strategy. Compared with the virtual stability now expected for 1986, U.S. wholesale prices could be accelerating above 5% per annum just two years hence. Far from being speedily self-limiting, this acceleration of inflation would likely trigger a pernicious new wage-price spiral, taking off from the traded goods sector where discipline would not long survive a devaluation-induced lapse in competitive pressures. Inflation expectations would ratchet upward once again, driving nominal interest rates higher.

Moreover, it is illusory to suppose that the improvement in U.S. net exports brought on by devaluation would add one-for-one to U.S. real GNP without supplanting domestic demand. Although the export and import-competing sectors of the economy would gain in production, profitability, and jobs, there could be negative consequences on each count in construction and services as the economy moves closer to capacity and cost pressures resurface. Moreover, the resurgence of

Table 8

Current account balances

	1985	1986*	1987*
United States	-118	-115	-91
Canada	-2	-3	-1
Japan	49	60	30
Germany	13	28	20
France	0	6	4
United Kingdom	5	5	3
Italy	-4	3	3
7 major industrial countries	-57	-16	-32

*On the assumptions of the G-5 cooperative scenario in Table 9, including oil prices at \$17 per barrel in 1986.

Table 9

U.S. current account scenarios

percent changes, except as noted

United States										Non-U.S. OECD		
Trade balance CIF (\$ bil.)	Current account (\$ bil.)	Foreign liabilities net of assets (\$ bil.)	Net debt- export ratio (%)	Real GNP	Unemploy- ment (%)	Wholesale manufac- turing prices	6-month Treasury bill rate (%)	Effective dollar (1980-82=100)		Real GNP	Traded goods prices	
								Nominal	Real			
Case 1: \$17 per barrel oil with dollar unchanged												
1985	-148	-118	88	9	2.2	7.1	1.5	7.7	127	121	2.9	2.2
1986	-137	-122	210	41	3.0	6.9	0.3	7.0	109	106	3.5	-1.3
1987	-125	-115	325	71	3.0	6.8	0.5	6.2	109	106	2.7	1.2
1988	-113	-108	433	97	2.5	7.0	1.4	6.0	109	106	2.9	1.4
1990	-118	-120	666	142	2.5	7.5	1.8	5.8	109	106	3.3	1.4
Case 2: U.S. recession with dollar unchanged												
1985	-148	-118	88	9	2.2	7.1	1.5	7.7	127	121	2.9	2.2
1986	-125	-112	250	40	2.5	7.3	-1.2	7.9	109	106	3.3	-2.7
1987	-96	-78	278	66	-2.4	11.0	-4.1	6.7	109	105	2.1	-2.6
1988	-57	-50	328	83	0.0	13.0	-3.8	6.7	109	101	2.3	-0.4
1990	-55	-49	435	106	1.7	14.8	2.6	6.5	109	108	2.8	0.8
Case 3: dollar slide												
1985	-148	-118	88	9	2.2	7.1	1.5	7.7	127	121	2.9	2.2
1986	-126	-113	200	38	3.0	6.9	1.5	7.0	95	97	3.2	-3.1
1987	-89	-86	286	57	3.0	6.9	3.6	8.2	86	91	2.7	-0.7
1988	-54	-57	343	68	2.5	7.0	5.5	8.5	80	90	2.7	-0.1
1990	-46	-46	437	75	2.6	7.4	6.3	7.0	71	89	2.7	0.9
Case 4: G-5 cooperation												
1985	-148	-118	88	9	2.2	7.1	1.5	7.7	127	121	2.9	2.2
1986	-130	-115	203	39	3.0	6.9	1.0	6.8	102	100	3.5	-1.3
1987	-100	-91	294	60	3.0	6.8	2.9	6.5	95	95	2.9	1.2
1988	-59	-55	349	69	2.5	7.1	5.1	7.2	80	93	4.3	1.8
1990	-60	-52	442	78	2.5	7.5	4.8	7.5	89	98	3.8	1.9

inflation could discourage investment generally even if apparent real interest rates were kept low.

Altogether, it is far from clear that the overall result for U.S. economic growth would be as positive as devaluation proponents proclaim. Nonetheless, compared with the risks of inaction or recession, dollar devaluation has the merit of tackling the U.S. trade problem without major peril to U.S. growth and employment.

The G-5 contribution

Lower oil prices and the dollar's decline to date promise only passing and inadequate respite for the U.S. trade imbalance. Drastic further dollar decline is no panacea, bearing in mind its inflationary dangers. Nor

is U.S. recession a palatable corrective, given the severe risks for the international economy at large and the debt-laden developing countries in particular. U.S. protectionism would bring the worst of all worlds — high U.S. inflation and global recession simultaneously, without material alleviation of the U.S. trade deficit.

What has to be accepted is that, by itself, the United States cannot engineer a satisfactory solution to its trade imbalance. In all corrections of profound international imbalance — for example, the outsize OPEC surpluses that followed the oil shocks of the 1970s, or the overdependence of LDCs on foreign borrowing — satisfactory solutions are not attainable by unilateral measures but instead by collabora-

tive, or at least consistent, actions on the part of all major parties to the problem at hand. Once these are in motion, the imbalances typically fade away with surprising speed.

This recognition underlies the oft-expressed desire of U.S. officials for stepped-up growth in Japan and Europe, both for their own well being and to lessen the severity of dollar depreciation, U.S. domestic slowdown, or both, that will be needed to return the U.S. trade and current account deficits to manageable dimensions. Case 4 in Table 9 shows that with economic growth in Japan and Europe that averages 0.6% per annum faster than seems likely on present policies, in conjunction with further effective dollar depreciation of about 18%, it should be possible to shrink the U.S. external deficit to sustainable proportions without unacceptable resurgence of U.S. inflation or sacrifice of U.S. economic growth. Also, by assumption, Japan and Europe would be growing faster than under do-nothing policies. Altogether, this cooperative approach promises a much better outcome for the world economy than do solutions to the U.S. trade problem relying on U.S. actions alone. The indicated effective depreciation of the dollar, as noted earlier, would have to be accomplished mainly by appreciation of Japanese and European currencies. Were Japan and Europe to grow even faster than portrayed in this scenario, the yen and mark would need less appreciation.

The potential payoff from cooperation has been known for some time. However, so long as oil prices, interest rates, and the dollar remained high, Japan and Europe felt inhibited from active steps to boost their own economic growth. Today, following the break in oil prices engendered by Saudi Arabia's shift in oil policy, the lower interest rates

bred by the erosion of inflation expectations, and a substantially lower dollar, the industrial countries are offered a window of opportunity to rectify mutual imbalances and move their economies closer to noninflationary potential.

Unfortunately, that window may close before the present euphoria, or at least complacency, about near-term economic prospects gives way to sober assessment of the longer-run risks. Realistically, industrial-country economic growth prospects are not especially bright, except perhaps this year for Germany and its European neighbors. The bulk of the growth benefits from lower oil prices are transient: their impetus will fade as early as 1987. Through their reluctance to lower nominal interest rates aggressively against the background of greatly reduced inflation expectations, central banks have in effect permitted rates in real terms to rise. The Federal Reserve has been inhibited from exercising its usual international leadership in interest rate matters by understandable concern that the dollar and the U.S. economy experience a soft landing — meaning that the dollar declines amid *narrowing* interest rate differentials, not in the face of *widening* differentials. In this light, the Federal Reserve was justified in delaying its recent discount rate reduction until internationally coordinated reductions could be arranged. However, the ½-percentage-point discount rate cut in early March still leaves real interest rates higher than had been judged appropriate last year.

Meanwhile, fiscal policies in the major countries generally range from neutral to restrictive. The imminently restrictive course of the U.S. federal budget is of cardinal importance for U.S. growth prospects in 1987. For Japan and Europe, the lagged effects of their currency appreciations will be taking

toll of profits, output, and jobs in their export sectors both this year and next. Accordingly, without policy relaxation, none of the major countries can count on achieving sustained expansion at their potential *growth rate* much beyond this year, let alone on making up past shortfalls below potential output *levels*. It is not too soon to be putting policy improvements in hand now to better the chance for satisfactory performance in 1987-88.

How can appropriate policy improvements best be brought to pass? The G-5 forum provides the most promising vehicle. Unlike other international groupings, it is not encumbered by an unwieldy membership list or bureaucratic tradition. Moreover, its scope is not limited to currency matters, but rather spans the gamut of monetary, fiscal, exchange rate, and trade policies. It can make possible the frank discussion of members' domestic policies having international ramifications. And it offers the opportunity for choosing among different policy combinations with intelligent appreciation of the trade-offs involved. This is important, since the ever-burning question of the "right rate" for the dollar has no single answer independent of other policy choices.

In this connection, currency "target zones" are often proposed by those sympathetic to official control of international capital flows. However, their assumptions that zones would lessen volatility and provide formal discipline within a reconstituted international monetary system are liable to be disappointed in practice. Zones might actually exacerbate currency volatility: whether hard or soft at the edges, zones that are publicly known to the currency markets are prone to invite market challenge and upset — at least until such time, were it ever to come, that the zones acquire real credibility through recognized offi-

cial willingness and competence to adapt basic policies in their support. There also are numerous technical problems in the computation of appropriate target zones, given the intrinsic uncertainties in economic relationships and the ambiguities concerning just what shifts in economic circumstance are to be deemed "structural" — warranting adjustment of the calculated zones — rather than "transient," calling for adjustment of market rates. These problems are manifest in the diverse and ever-shifting numeric ranges put forward by zone enthusiasts. Setting the right range for the dollar is just as difficult as setting its right rate.

Beyond these already formidable weaknesses, target zones present problems at the fundamental level of securing conceptual and practical agreement on appropriate balance of payments targets and adjustment speeds. No matter what the exchange rate regime — fixed, floating, or managed — the difficulty always has been that surplus countries like their surpluses. Typically, they see no virtue or necessity for changing their own policies unless domestic goals demand it. But when the adjustment burden is thrust wholly on deficit countries, the overall result is deflationary for the world economy, as has been demonstrated on a regional scale by the history of the European Monetary System. Reform of the exchange rate system is not enough to secure surplus country adjustment or avert deflation. But, recalling the events of 1971, the skillful exercise of political pressure, backed up by credible threats when necessary on the trade policy and exchange rate fronts, can extract the requisite adjustment from surplus countries and create a more healthy global economic environment for deficit countries, industrial and developing alike.

Formalized, bureaucratized, or

publicized target zones for currencies have little to offer for exchange rate management or global economic betterment. By contrast, on an informal, flexible, and confidential basis, illustrative zones — without target status — could facilitate pragmatic and constructive discussion within the G-5 forum. They could be used to illuminate the interrelationships among the whole range of official policies and to encourage appropriate policy changes — not

only to harmonize monetary policies internationally but also, amid needed U.S. budgetary restraint, to press for Japanese and German fiscal relaxation. If the G-5 can move forward in these areas its value will be confirmed. After all, its purpose is not to rig the currency markets but to bring direction and collaborative endeavor to the global quest for sustained and noninflationary economic growth, including correction of international imbalances.

LDC capital flight

Capital flight is a serious problem for a number of LDCs, depriving them of resources for economic development and symbolizing the poor policies and performance contributing to external debt troubles. As clearly stated in the Baker initiative, dealing with capital flight is a prerequisite for mobilizing additional foreign credit for troubled LDCs. While particular instances of capital flight have achieved some notoriety, comprehensive quantitative estimates are hard to come by. This

note presents an attempt at such quantification for 18 developing countries that are prominent international borrowers.

Capital flight can be defined as the reported and unreported acquisition of foreign assets by the non-bank private sector and some elements of the public sector. This is an expansive definition, in that it includes foreign-currency working balances of local enterprises engaged in international trade and trade credit extended directly by local exporters to foreign importers.

Since, in practice, capital flight cannot be well measured directly, Table 10 estimates it indirectly as the counterpart of recorded net direct investment inflows *plus* increases in gross external debt, *less* recorded outflows through current account deficits, and *less* the build-up of foreign assets by the banking system and the official monetary authorities. The resulting estimates are necessarily rough and are subject to several sources of both downward and upward bias. These biases are intrinsic to the indirect estimation method, arising principally from errors and omissions in recorded transactions and valuation changes in assets and liabilities induced by exchange rate changes. The overall direction and magnitude of bias cannot be established conclusively. However, with few exceptions, the estimates seem likely to understate actual capital flight — by as much as half in one or two cases. Further, the estimates are presented on a net basis — gross capital flight could be substantially higher.

Table 10

Estimated net capital flight

cumulative flows during 1976-85

billions of dollars, minus sign indicates outflows

	Net direct investment inflows	Change in gross external debt	Current account balance*	Change in selected gross foreign assets**	Capital flight***		
					Total	1976-82	1983-85
Argentina	4	42	-15	-4	-26	-27	1
Bolivia	0	3	-2	-0	-1	-1	0
Brazil	20	80	-77	-13	-10	-3	-7
Chile	2	16	-16	-3	1	0	1
Colombia	2	10	-11	-2	0	0	0
Ecuador	1	7	-5	-1	-2	-1	-1
Mexico	11	75	-29	-3	-53	-36	-17
Peru	0	8	-6	-2	-0	1	-1
Uruguay	1	4	-3	-1	-1	-1	-0
Venezuela	-0	26	10	-5	-30	-25	-6
Subtotal	40	270	-154	-33	-123	-93	-30
India	0	22	-8	-5	-10	-6	-4
Indonesia	2	27	-15	-9	-5	-6	1
Korea	0	40	-22	-6	-12	-6	-6
Malaysia	9	19	-12	-4	-12	-8	-4
Nigeria	2	18	-15	4	-10	-7	-3
Philippines	1	23	-16	1	-9	-7	-2
South Africa	-2	16	2	2	-17	-13	-4
Thailand	2	17	-17	-1	-0	1	-1
Subtotal	14	181	-102	-18	-75	-52	-23
Total for 18 countries	54	451	-256	-51	-198	-145	-53

*Minus sign indicates deficit.

**Official reserve assets and other foreign assets of official monetary authorities plus foreign assets of commercial banks and certain other banking institutions. Minus sign indicates increase in foreign assets.

***Apparent change in other foreign assets (minus sign indicates increase) through residual capital flows measured as the counterpart of the sum of net direct investment inflows, change in gross external debt, current account balance, and change in selected gross foreign assets. Direct investment and current account data are taken from the reported balance of payments. Debt and asset changes are derived from estimated year-end outstandings in dollar terms.

Note: Due to rounding columns and rows may not add.

Sources of understatement

Misreporting. Underinvoicing enables exporters to acquire foreign

Table 11

Identifiable nonbank residents' deposits in foreign banks, September 1985

billions of dollars

	Total in all foreign banks*	Banks in U.S.**	Other foreign banks
Argentina	8.2	4.1	4.1
Bolivia	0.4	n.a.	n.a.
Brazil	8.5	1.7	6.8
Chile	2.2	1.6	0.6
Colombia	1.6	1.8	0.8
Ecuador	1.3	0.7	0.6
Mexico	15.3	11.1	4.2
Peru	1.5	1.0	0.5
Uruguay	2.0	1.2	0.8
Venezuela	12.6	7.1	5.5
Subtotal	54.6	30.3	24.3
India	1.7	0.1	1.6
Indonesia	0.7	0.2	0.5
Korea	0.4	0.1	0.3
Malaysia	1.0	0.0	1.0
Nigeria	1.4	n.a.	n.a.
Philippines	1.1	0.7	0.4
South Africa	1.3	0.0	1.3
Thailand	0.4	0.2	0.2
Subtotal	8.0	1.3	6.7
Total for 18 countries	62.6	31.6	31.0

*Source: IMF, *International Financial Statistics*.

**Source: U.S. Treasury Bulletin. Banks in the U.S. include the U.S. agencies, branches, and subsidiaries of foreign banks.

exchange in excess of that declared and normally required to be sold to the central bank or its agents. The difference may be invested abroad, by the exporters themselves or after sale to others through unofficial markets offering an advantageous rate of exchange. Much the same applies to the proceeds from goods smuggled abroad. Some prime examples are: Argentina in 1983-84, when underreporting of exports is thought to have been a main channel for capital flight; Malaysia in 1976-84, when reported exports fell roughly \$10 billion short of their FOB value recorded by trading partners; and Nigeria in 1979, when reported oil exports were about \$4 billion less than volume and price data implied. In the area of service export receipts, underreporting also is prevalent in relation to tourism and the interest and dividends earned on assets held abroad.

Overinvoicing enables importers to purchase more foreign exchange at official rates — sometimes preferential — than they owe to foreign exporters. Again, the difference may be invested abroad, directly or by others through the unofficial markets. For example, during several years in the 1970s and 1980s Nigeria's reported imports substantially exceeded those recorded by its trading partners.

Valuation effects. When the dollar appreciates, as it did between end-1979 and end-1984, the dollar equivalent of debts denominated in other currencies decreases. Net borrowing from abroad is then understated when measured by changes in year-end debt outstandings — the more so with the growing practice of borrowing in currencies other than the dollar. The currency composition of external debt varies from country to country: almost 90% of Mexico's public-sector debt is dollar denominated, but less than half of Indonesia's. Unfortunately, the lack of

full information concerning currency composition prevents reliable estimation of appropriate valuation adjustments.

On the asset side — quantitatively less important — it is when the dollar depreciates, as during 1985, that valuation effects cause capital flight measures based on year-end outstandings to be understated.

Sources of overstatement

Misreporting. Imports also are sometimes underreported — obviously so in connection with smuggled goods, to evade duties or controls, but also when governments seek to prevent public disclosure, for example, of military purchases. Such underreporting results in understatement of the current account deficit and, following the indirect estimation approach, overstatement of apparent net capital flight.

Valuation effects. When the dollar depreciates, as between end-1975 and end-1979 and again during 1985, the dollar equivalent of debt denominated in other currencies increases. Capital inflows measured by changes in the value of external debt outstandings from one year-end to the next are correspondingly overstated.

On the asset side, it is when the dollar appreciates, as during the early 1980s, that valuation effects cause capital flight measures based on year-end outstandings to be overstated.

Where is the money?

Only a fraction of the specific assets accumulated through capital flight can be identified. The BIS and the IMF report bank deposits held by nonbank entities in foreign banks by residence of depositor. Last September, for the 18 LDCs listed in

Table 12

Impact of capital flight on debt
billions of dollars, unless otherwise noted

	Gross external debt, end-1985		Gross debt as percent of exports of goods and services*	
	Actual	Without capital flight**	Actual	Without capital flight**
Argentina	50	1	493	16
Brazil	106	92	358	322
Mexico	97	12	327	61
Venezuela	31	-12	190	-55
Malaysia	20	4	103	18
Nigeria	19	7	161	62
Philippines	27	15	327	195
South Africa	24	1	131	15

*Debt-to-export ratios are based on the average of debt at beginning and end of 1985.

**Assumes that in the absence of capital flight, debt accumulation and related interest payments would have been reduced, and other flows (direct investment, changes in foreign assets of official monetary authorities and banks, and current account transactions other than interest payments) would not have differed from actual.

Table 11, such deposits amounted to nearly \$63 billion, an increase of about \$15 billion in less than three years. Only a small fraction is believed to be collateral for loans. Approximately half of all identified deposits were held in banks in the United States; only about 10% of those in U.S. banks were demand deposits. Undoubtedly there are additional holdings in U.S. and foreign banks by residents of these countries, but their use of addresses or intermediaries in countries other than their own prevents identification. Virtually no data are published on other foreign assets acquired through capital flight, such as currency, securities, businesses, and real estate.

Comment

During the past decade the 18 LDCs listed in Table 9 experienced net capital flight of nearly \$200 billion, while simultaneously accumulating \$450 billion additional foreign debt. This was no coincidence. The policies and track records that engendered capital flight also generated demands for foreign credit that, for much of the time, was readily available. Had the earnings on foreign assets acquired through capital flight been repatriated, rather than reinvested abroad, the servicing of existing debts would have been facilitated. Moreover, foreign debt accumulation would have been much smaller in the absence of capital flight. On the admittedly oversimplified assumption that capital flight served only to inflate debt buildup and related interest charges, several of the eight countries in Table 12 might have been practically debt-free today — were it not for capital flight.

Statistical appendix

For key to data in tables
see February 1986 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.8	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985	127.1	92.8	115.8	76.3	85.4	107.7	82.2	88.2	104.2	89.5	103.9	75.6	109.5	95.0	95.6	83.9
1985																
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
June	130.5	93.2	112.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July	126.1	93.5	113.1	75.4	85.2	107.1	81.4	93.6	103.8	89.0	103.5	75.5	110.2	94.5	95.7	83.6
August	124.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September	125.2	92.1	114.9	74.0	86.3	108.6	79.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.9	91.3	123.6	71.8	87.3	109.8	80.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
November	117.0	90.3	129.5	67.9	87.6	109.9	80.2	89.7	105.2	90.5	105.6	72.8	113.4	96.5	94.8	83.3
December	116.1	88.9	129.2	67.8	88.3	111.3	80.2	88.3	105.9	90.4	106.7	72.9	112.3	97.3	94.9	83.1
1986																
January	115.1	87.9	130.1	69.1	88.8	112.5	81.0	85.3	106.4	91.1	107.6	73.0	112.1	97.6	94.8	82.7
February	111.2	87.5	138.8	66.9	89.5	113.5	81.7	82.6	106.8	91.6	108.2	73.2	114.2	98.1	95.3	82.0
February 14	111.7	88.0	139.2	66.7	89.3	113.1	81.6	82.4	106.6	91.4	108.0	73.2	114.7	97.9	95.2	82.2
21	109.8	88.1	141.3	66.9	89.4	113.3	81.8	82.8	106.7	91.5	108.2	73.4	115.3	98.1	95.2	81.9
28	108.7	87.2	139.9	66.2	89.9	114.2	82.3	82.7	107.2	92.0	108.7	73.8	114.6	98.8	95.7	81.8
March 7	109.0	86.3	141.0	65.8	90.1	114.6	82.5	81.4	107.4	92.2	109.1	74.0	114.0	99.1	95.2	81.6
14	109.1	87.6	141.8	66.4	89.6	113.9	82.1	82.7	107.3	91.8	108.6	73.7	113.6	98.4	94.8	81.9
21	107.8	87.7	143.9	66.4	89.5	113.8	82.1	83.3	107.1	92.2	108.5	73.8	114.6	98.5	94.6	81.8

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.5	101.0	89.3	102.7	90.9	100.0	95.2	99.4	96.4	100.1	96.9
1985	121.3	97.5	96.4	88.7	99.3	95.4	99.8	92.0	103.0	90.4	98.2	97.4	97.7	98.2	99.0	98.0
1985																
March	129.6	98.1	94.0	92.5	97.6	94.0	99.8	86.5	101.6	91.7	97.0	98.0	95.5	97.4	98.3	99.6
April	125.1	98.3	93.6	84.9	98.7	94.6	99.6	91.2	102.4	91.3	97.4	98.8	96.3	98.3	98.5	98.0
May	126.0	97.2	92.9	88.3	99.1	94.3	100.0	92.3	101.9	90.3	97.3	97.7	95.3	97.6	99.3	98.0
June	124.7	97.7	93.1	86.5	98.4	94.2	100.8	93.9	102.2	90.8	97.4	97.9	95.7	97.2	99.1	97.5
July	120.6	97.8	93.6	88.5	99.5	94.6	99.3	97.7	102.8	90.0	97.8	97.0	97.7	96.6	99.0	97.4
August	118.3	97.4	94.1	89.1	101.2	96.0	97.8	95.9	103.6	89.5	99.0	96.9	99.3	97.4	98.1	97.0
September	117.9	97.8	95.5	87.8	100.6	96.1	98.3	96.1	103.4	89.6	98.7	96.7	98.0	97.8	100.5	97.0
October	114.2	95.6	101.3	84.8	100.8	96.8	99.0	94.8	104.0	89.3	99.3	95.7	101.4	100.2	99.7	97.1
November	112.7	94.5	105.5	80.4	100.4	97.0	99.2	94.9	104.2	89.6	99.3	96.1	101.5	100.5	100.1	97.1
December	111.9	93.4	105.1	80.5	100.9	97.8	99.9	93.7	105.6	89.5	100.4	96.8	100.4	101.5	100.0	97.0
1986																
January	110.3	92.9	105.7	82.3	100.9	98.7	101.2	91.3	107.0	89.6	101.1	99.8	100.4	101.3	100.7	97.3
February	105.2	93.6	113.2	80.3	101.2	99.5	102.7	89.0	107.8	90.0	101.7	101.1	102.6	102.2	101.9	96.8

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1981	107.4	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.2	104.4
1982	76.4	112.0	96.6	104.8	81.9	103.7	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.0	85.6	88.7	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.4	92.8
1984	79.8	85.5	89.8	99.3	91.5	105.6	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1985	70.9	84.7	79.4	85.5	90.1	97.0	92.7	106.2	96.1	88.7	115.8	114.2	89.6	92.9	105.6	91.0
1985																
February	74.8	93.1	89.7	99.7	100.2	100.1	94.4	111.5	102.4	97.9	119.4	123.4	95.7	99.5	119.4	102.3
March	76.3	96.6	82.8	96.5	100.9	99.2	94.3	112.1	100.9	96.2	118.1	123.4	95.7	98.6	115.9	101.5
April	76.0	88.9	81.4	91.4	98.9	95.9	92.4	106.7	100.2	92.1	118.4	118.7	94.4	96.1	112.5	96.3
May	76.5	84.1	82.7	88.9	97.9	99.6	93.6	108.9	99.9	91.0	118.9	117.4	93.1	95.1	104.5	94.1
June	75.4	80.9	84.7	86.6	97.4	99.8	93.4	108.1	99.7	90.0	118.4	116.4	91.3	94.5	105.2	90.0
July	67.8	78.8	76.7	83.3	93.9	99.7	92.8	105.3	96.8	87.7	116.2	113.5	87.8	91.8	99.1	86.5
August	66.9	80.6	74.1	81.6	82.0	92.1	92.8	103.2	95.2	85.8	114.6	110.1	86.1	90.2	98.4	85.1
September	67.6	80.9	75.6	80.7	82.7	94.6	94.2	104.9	95.2	85.9	115.4	111.6	86.9	90.9	101.7	86.2
October	65.0	79.4	73.0	76.3	78.8	93.3	91.0	101.7	89.3	81.9	110.8	106.5	84.3	87.6	100.6	85.2
November	64.1	80.1	72.4	74.1	77.1	94.3	92.1	100.9	87.1	80.5	109.9	105.5	83.2	87.0	101.2	84.9
December	63.7	80.4	71.8	72.8	74.5	96.1	91.4	100.5	86.5	80.3	109.0	107.0	82.2	86.4	101.0	82.9
1986																
January	63.0	79.0	71.7	72.2	73.2	100.2	91.3	99.6	86.4	79.2	107.9	104.0	81.4	86.1	100.4	81.7

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984			1985		
				Jun	Sep	Decr	Marr	Junr	Sep
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 330	2 322	2 359	2 457	2 442	2 598
On nonbanks	557	634	665	679	676	694	706	706	743
On banks	1 372	1 512	1 588	1 651	1 646	1 665	1 751	1 723	1 855
In dollars	1 504	1 694	1 797	1 850	1 857	1 894	1 944	1 908	1 978
In other currencies	425	452	456	480	465	465	513	534	620
Domestic currencies, on nonresidents	365	398	398	406	393	397	402	417	443
On nonbanks	128	132	136	140	138	137	140	144	157
On banks	237	266	262	266	255	260	262	273	286
In dollars	188	211	217	218	208	210	201	204	197
In other currencies	177	187	181	188	185	187	201	213	246
Total	2 294	2 544	2 651	2 736	2 715	2 756	2 859	2 859	3 041
On nonbanks	685	766	801	819	814	831	846	863	900
On banks	1 609	1 778	850	1 917	1 901	1 925	2 013	1 996	2 141
In dollars	1 692	1 905	2 014	2 068	2 065	2 104	2 145	2 112	2 175
In other currencies	602	639	637	668	650	652	714	747	866
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 168	2 278	2 360	2 349	2 386	2 477	2 462	2 621
To nonbanks	372	432	479	503	492	497	508	509	529
To official monetary institutions	112	91	88	88	94	96	96	106	109
To other banks	1 470	1 645	1 711	1 769	1 763	1 793	1 873	1 847	1 983
In dollars	1 539	1 741	1 846	1 905	1 912	1 950	1 998	1 960	2 026
In other currencies	415	427	432	455	437	436	479	502	595
Domestic currencies, to nonresidents	263	250	258	277	274	277	289	306	336
To nonbanks	74	70	71	71	72	77	78	85	98
To banks	189	180	187	206	202	200	211	221	238
In dollars	126	116	133	140	140	143	143	150	154
In other currencies	137	134	125	137	134	134	146	156	182
Total	2 217	2 418	2 536	2 637	2 623	2 663	2 766	2 768	2 957
To nonbanks	446	502	550	574	564	574	586	594	627
To banks and official institutions	1 771	1 916	1 986	2 063	2 059	2 089	2 180	2 174	2 330
In dollars	1 665	1 857	1 979	2 045	2 052	2 093	2 141	2 110	2 180
In other currencies	552	561	557	592	571	570	625	658	777
Net market size	1 155	1 285	1 377	1 417	1 407	1 425	1 447	1 477	1 556

International bond issues and bank credits

millions of dollars

	1983	1984	1985	1985	1986		Jan-Feb	
				Dec	Jan	Feb	1986	1985
By country of borrower								
Industrial countries	102 652	177 077	226 711	20 269	15 796	17 948	33 744	33 671
Australia	5 737	5 816	14 407	882	3 012	1 422	4 435	1 293
Austria	1 290	2 254	2 435	108	291	475	766	337
Belgium	2 168	1 847	3 269	784	111	421	531	515
Canada	8 571	13 124	17 184	356	369	2 447	2 816	5 372
Denmark	3 941	4 825	3 589	86	61	228	289	717
Finland	1 271	1 713	1 846	386	199	329	527	348
France	8 626	11 298	18 773	1 947	644	722	1 367	2 487
Germany	3 197	2 165	3 452	557	211	739	950	390
Greece	1 291	1 551	1 588	—	—	—	—	469
Ireland	1 869	1 377	1 881	185	132	257	389	401
Italy	4 876	6 933	11 033	1 220	974	436	1 410	2 250
Japan	14 428	17 526	21 269	909	1 145	1 710	2 855	4 409
Netherlands	1 213	1 973	2 299	113	90	410	500	245
New Zealand	802	3 208	2 707	156	420	250	670	253
Norway	1 969	1 324	3 905	275	178	157	335	313
Portugal	1 030	1 796	2 382	100	568	30	598	262
South Africa	1 300	1 422	825	—	—	—	—	202
Spain	4 977	4 931	3 913	351	49	265	313	910
Sweden	7 144	11 256	9 890	213	639	802	1 441	1 239
United Kingdom	2 726	8 899	25 424	1 453	1 521	1 613	3 134	1 423
United States	20 276	85 054	69 194	9 072	4 752	4 817	9 569	9 606
Other*	3 950	6 785	5 447	379	431	418	848	231
Developing countries	38 256	39 725	32 139	2 368	1 552	1 071	2 623	2 825
Latin American countries	15 592	17 464	8 115	1 066	30	130	160	297
Argentina	1 750	4 212	3 700	—	17	—	17	—
Brazil	4 475	8 649	—	—	—	—	—	—
Chile	1 405	784	1 085	—	—	—	—	—
Colombia	552	589	1 052	1 000	—	—	—	—
Mexico	5 138	3 918	109	60	—	—	—	—
Venezuela	237	—	48	—	—	—	—	—
Other**	2 035	1 312	2 121	6	13	130	143	297
Asian countries	12 978	15 893	18 410	864	1 377	807	2 184	1 275
India	968	945	818	100	509	83	592	242
Indonesia	2 363	1 924	451	—	300	—	300	—
Korea	4 387	6 201	5 898	130	293	198	491	397
Malaysia	2 197	2 605	2 220	—	—	—	—	118
Philippines	878	925	925	—	—	—	—	—
Thailand	747	1 221	1 497	300	—	—	—	400
Other	1 438	2 072	6 602	334	276	526	802	116
Middle Eastern and African countries	9 686	6 368	5 614	438	145	134	279	1 252
Algeria	1 993	821	1 450	150	—	107	107	600
Nigeria	2 343	985	—	—	—	—	—	—
Turkey	1 106	741	1 203	175	138	—	138	—
Other	4 244	3 821	2 960	113	7	27	34	652
Eastern European countries	1 294	3 244	5 236	711	298	463	761	535
Hungary	741	1 386	1 578	415	248	63	311	230
Soviet Union	93	1 051	1 489	146	—	300	300	206
Other***	460	807	2 169	150	50	100	150	100
International organizations****	16 201	13 287	20 635	1 898	2 089	1 519	3 608	3 124
By type of instrument and currency								
International bond issues	76 329	107 411	167 756	11 844	14 061	17 994	32 055	27 304
Eurobonds	48 501	79 458	136 731	10 163	11 179	14 471	25 650	22 888
U.S. dollar	38 428	63 593	97 782	6 593	7 570	10 077	17 647	18 355
German mark	3 817	4 604	9 491	1 114	1 052	1 360	2 412	1 216
British pound	1 947	3 997	5 766	525	289	282	570	389
Japanese yen	212	1 212	6 539	1 078	1 036	1 041	2 077	1 091
European composite units	2 019	3 032	7 038	363	464	215	679	732
Other	2 078	3 020	10 114	490	768	1 496	2 264	1 106
Foreign bonds	27 828	27 953	31 025	1 681	2 882	3 523	6 405	4 416
U.S. dollar	4 545	5 487	4 655	—	914	150	1 064	825
German mark	2 671	2 243	1 741	120	—	—	—	247
British pound	811	1 292	958	—	—	—	—	65
Swiss franc	14 299	12 626	14 954	1 309	1 334	2 009	3 343	2 143
Japanese yen	3 772	4 628	6 379	135	321	1 214	1 535	837
Other	1 730	1 677	2 339	116	313	150	483	299
International bank credits	82 074	125 922	116 964	13 402	5 674	3 008	8 681	12 851
Eurocurrency credits	74 222	112 605	110 317	13 253	5 368	2 901	8 269	11 945
Foreign credits	7 852	13 317	6 648	150	305	107	412	905
Total	158 403	233 333	284 720	25 246	19 735	21 001	40 736	40 155

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985					1986	
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Eurodollar										
overnight	9.25	9.50	8.63	7.56	8.38	7.88	7.88	12.25	7.88	7.81
one month	9.13	9.69	8.38	7.94	7.94	7.88	8.06	8.00	7.94	7.81
three months	9.19	9.81	8.63	8.00	8.06	7.94	8.06	7.88	7.94	7.75
six months	9.50	10.06	9.13	8.13	8.31	8.00	8.06	7.88	8.00	7.69
twelve months	9.63	10.38	9.81	8.56	8.56	8.25	8.17	7.94	8.13	7.75
Euro-Canadian dollar										
one month	10.00	9.13	9.88	8.75	8.38	8.31	8.88	9.00	10.69	12.88
three months	10.00	9.50	10.61	8.94	8.69	8.38	8.88	9.00	10.69	11.69
six months	10.13	9.75	10.06	9.19	9.06	8.56	8.94	9.00	10.44	10.94
twelve months	10.25	10.00	10.44	9.50	9.38	8.94	9.06	9.00	10.31	10.31
Euro-French franc										
one month	23.00	12.13	10.69	9.88	9.63	9.19	9.63	12.50	15.00	14.50
three months	24.00	12.19	10.69	10.63	10.50	9.63	9.75	13.00	16.25	14.00
six months	22.00	12.31	11.00	11.50	10.88	10.63	10.25	13.13	13.75	12.50
twelve months	19.75	12.63	11.38	11.75	11.25	10.88	10.25	12.25	12.75	10.75
Euromark										
one month	5.88	5.25	5.50	4.50	4.44	4.69	4.69	4.75	4.56	4.56
three months	5.88	5.88	5.50	4.50	4.50	4.63	4.69	4.75	4.57	4.44
six months	5.94	6.13	5.56	4.56	4.63	4.94	4.75	4.75	4.57	4.38
twelve months	6.00	6.38	5.56	4.69	4.75	5.06	4.88	4.81	4.63	4.38
Euro-Dutch guilder										
one month	5.13	5.81	5.69	5.75	5.69	6.13	5.75	5.75	5.69	5.81
three months	5.19	6.00	5.75	5.69	5.69	6.19	5.75	5.75	5.69	5.81
six months	5.38	6.25	5.81	5.69	5.69	6.19	5.89	5.81	5.69	5.75
twelve months	5.63	6.38	5.94	5.69	5.69	6.25	5.94	5.88	5.75	5.75
Euro-Swiss franc										
one month	2.81	3.38	4.44	4.44	4.19	3.88	4.00	3.88	4.06	3.75
three months	3.25	3.75	4.56	4.56	4.50	4.44	4.00	4.00	4.06	3.75
six months	3.44	3.94	4.63	4.69	4.63	4.50	4.00	4.00	4.06	3.75
twelve months	3.44	3.94	4.69	4.63	4.63	4.56	4.06	4.06	4.13	3.81
Eurosterling										
one month	10.56	9.13	9.50	11.88	11.63	11.56	11.63	11.69	12.75	12.56
three months	10.44	9.31	9.88	11.63	11.50	11.50	11.56	11.81	12.81	12.31
six months	10.31	9.50	10.00	11.13	11.19	11.44	11.31	11.81	12.75	12.00
twelve months	10.31	9.81	10.19	11.06	11.00	11.19	11.13	11.69	12.63	11.69
Euroyen										
one month	6.75	6.25	6.19	6.44	6.75	7.50	8.19	7.13	6.38	6.50
three months	6.75	6.31	6.19	6.38	6.38	7.75	7.69	6.56	6.13	5.88
six months	7.10	6.38	6.13	6.31	6.38	7.38	7.19	6.50	6.06	6.56
twelve months	6.81	6.44	6.13	6.31	6.38	7.06	6.94	6.38	6.00	6.56
European currency unit										
one month	12.44	8.81	9.25	8.00	8.31	8.31	8.31	9.63	10.63	9.94
three months	12.31	9.19	9.38	8.50	8.50	8.50	8.50	9.63	10.13	9.88
six months	12.00	9.44	9.50	8.75	8.75	8.81	8.69	9.63	9.75	9.44
twelve months	11.19	9.63	9.63	8.88	8.88	8.75	9.75	9.63	9.13	9.06

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1983	1984	1985						1986	
	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States companies										
<i>Eurodollar</i>	11.59	11.25	10.65	10.37	10.53	10.37	10.04	9.68	9.60	9.27
<i>Euromark</i>	7.34	6.95	6.74	6.67	6.74	7.13	6.95	6.73	6.73	6.61
<i>Swiss franc</i>	5.83	5.73	5.69	5.60	5.62	5.66	5.59	5.49	5.47	5.52
European governments										
<i>Eurodollar</i>	12.65	12.04	11.31	11.11	11.18	11.04	10.77	10.52	10.59	10.36
<i>Euromark</i>	8.12	7.39	7.17	6.89	6.96	7.23	7.14	7.03	6.95	6.81
<i>Swiss franc</i>	5.63	5.24	5.16	5.09	5.00	5.02	4.99	4.91	4.82	4.71
<i>European currency unit</i>	11.77	10.64	9.99	10.01	10.14	10.42	10.20	10.23	10.26	10.44

Central bank discount rates

at or near end of month

	1982	1983	1984	1985			1986		Current	
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar 20 1986	effective since
United States	8.50	8.50	8.00	7.50	7.50	7.50	7.50	7.50	7.00	Mar 7, 86
Canada	10.05	9.96	10.09	8.78	9.10	9.49	10.80	11.80	10.11	Mar 20, 86
Austria	4.75	3.75	4.50	4.00	4.00	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	11.50	10.00	11.00	9.00	8.75	9.75	9.75	9.75	9.75	Dec 23, 85
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	9.00	8.50	8.50	8.00	Mar 1, 86
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.00	4.00	4.00	4.00	4.00	3.50	Mar 7, 86
Ireland	14.00	12.25	14.00	10.25	10.25	10.25	11.75	13.75	13.75	Feb 3, 86
Italy	18.00	17.00	16.50	15.50	15.00	15.00	15.00	15.00	15.00	Nov 8, 85
Netherlands	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	Mar 7, 86
Norway	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	19.00	25.00	25.00	23.00	19.00	19.00	19.00	19.00	19.00	Nov 27, 85
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	10.50	10.50	10.50	9.50	9.50	8.50	Mar 13, 86
Switzerland	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.38	11.31	11.31	11.31	12.31	12.31	11.31	Mar 20, 86
Japan	5.50	5.00	5.00	5.00	5.00	5.00	4.50	4.50	4.00	Mar 10, 86
New Zealand	13.00	7.50	13.50	24.80	20.90	19.80	n.a.	n.a.	n.a.	Dec, 85
South Africa	15.45	18.50	21.75	14.50	13.50	13.50	12.50	12.50	12.50	Jan 17, 86
Argentina*	10.56	15.10	18.19	5.00	5.00	5.00	5.00	5.00	5.00	Oct, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.30	8.05	12.11	11.92	10.81	11.50	11.62	n.a.	n.a.	Jan, 86
Singapore	7.00	7.00	6.75	5.00	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	12.50	13.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	8.00	8.00	8.00	8.00	8.00	8.00	Oct 16, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1982	1983	1984	1985						1986	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	8.95	9.47	8.38	7.88	7.90	7.92	7.99	8.06	8.27	8.14	7.85
Canada	10.63	8.78	10.50	9.27	8.97	8.53	8.58	8.81	9.23	9.94	11.47
Austria	6.00	5.75	7.63	6.13	5.38	4.88	5.50	6.75	7.25	6.13	6.25
Belgium	9.29	7.39	9.12	6.97	8.00	7.91	8.26	7.93	6.78	8.36	8.57
Finland	11.50	16.70	15.07	13.60	13.43	13.11	12.78	12.37	11.98	11.64	11.40
France	12.88	12.27	10.95	9.88	9.68	9.57	9.34	8.98	9.01	8.83	n.a.
Germany	6.15	5.61	5.62	5.13	4.77	4.59	4.54	4.81	4.64	4.64	4.56
Ireland	14.54	12.19	14.50	11.50	10.75	9.50	9.38	8.50	9.62	12.00	14.38
Italy	19.00	17.88	17.25	15.00	14.53	14.38	14.35	14.58	14.75	15.15	16.57
Netherlands	9.31	5.84	5.60	6.63	5.92	5.74	5.87	5.78	5.75	5.75	6.01
Norway	11.00	12.30	12.50	12.30	12.70	11.80	12.25	12.50	12.40	13.00	13.20
Spain	20.18	16.77	12.11	12.39	12.99	10.86	8.99	10.49	9.78	8.44	10.49
Sweden	9.31	11.52	11.88	15.39	15.00	15.00	14.77	13.48	n.a.	12.50	12.50
Switzerland	1.25	1.88	1.50	2.00	2.50	2.00	1.25	0.75	2.00	2.00	1.75
United Kingdom	6.70	7.78	6.31	12.45	11.25	9.89	9.66	14.72	9.72	11.59	11.16
Australia	10.87	4.55	10.98	14.58	15.29	15.83	15.84	16.87	18.37	18.32	18.25
Japan	6.92	6.44	6.41	6.19	6.17	6.41	6.54	7.29	8.02	6.95	5.78
South Africa	14.15	16.06	21.13	17.50	16.25	15.20	14.90	18.13	12.50	12.00	11.25
Argentina*	12.77	14.65	17.75	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50
Brazil	150.42	184.69	272.02	214.19	194.90	230.30	237.20	229.96	352.23	541.33	376.24
Hong Kong	9.13	13.90	8.80	4.95	2.74	4.71	4.38	5.43	6.10	5.93	6.63
Korea	13.84	11.40	10.00	9.50	9.70	9.40	9.60	9.00	8.80	8.50	9.40
Philippines	16.12	31.18	15.22	20.36	18.39	10.25	16.71	15.41	15.03	11.72	n.a.
Singapore	11.45	7.05	6.01	4.94	4.37	5.34	5.79	4.49	4.53	4.84	5.75
Taiwan	9.94	7.65	8.07	6.79	8.33	6.81	5.30	5.06	4.50	4.25	5.25

Member, Federal Deposit Insurance Corporation Printed in U.S.A.

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	8.15	9.28	7.99	7.40	7.36	7.13	7.44	7.40	7.25	7.15	7.22
Canada	9.80	9.71	9.84	9.06	8.95	8.75	8.53	8.85	9.24	10.55	11.55
Belgium	12.42	11.00	10.90	9.63	9.63	9.28	8.92	8.72	9.89	9.89	9.89
Ireland	15.25	12.01	15.10	10.38	10.43	9.89	10.14	10.41	11.15	14.32	15.02
Italy	19.11	16.95	14.69	14.08	13.99	13.37	12.90	12.76	n.a.	n.a.	n.a.
Netherlands	5.63	5.63	5.88	6.25	5.75	5.75	6.19	5.88	5.69	5.72	6.13
Spain	15.28	14.46	12.00	13.29	12.45	10.66	9.44	9.25	9.25	9.25	9.25
Sweden	12.90	11.75	11.83	15.04	15.00	15.33	14.37	13.28	12.49	11.70	11.14
United Kingdom	9.96	9.04	9.33	11.30	11.31	11.38	11.45	11.33	11.49	12.47	12.21
Australia	9.39	8.54	12.27	14.78	16.17	16.16	16.36	18.45	19.40	18.46	17.03
Japan	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	7.80	13.50	24.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	14.62	18.43	21.94	16.48	15.72	15.22	13.87	12.90	12.99	12.02	11.96
Brazil	115.40	179.15	273.03	223.13	197.15	233.20	241.20	245.33	379.77	n.a.	n.a.
Mexico	57.44	53.78	48.67	74.99	70.56	n.a.	66.24	70.70	72.98	74.89	77.75
Philippines	14.54	15.99	47.14	29.59	21.60	18.01	17.04	16.63	16.45	16.68	n.a.
Singapore	2.74	2.50	2.91	2.68	2.79	2.97	2.92	2.89	2.94	2.96	2.80

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	8.94	9.89	8.34	7.85	7.91	7.89	8.07	8.01	8.01	7.91	7.80
Canada	9.95	9.87	10.10	9.25	9.15	8.95	8.70	9.25	9.45	11.25	12.05
Belgium	12.52	11.15	10.85	9.02	9.73	9.48	8.97	8.72	9.89	9.89	9.89
France	12.75	12.19	10.69	10.00	9.75	9.44	9.25	8.87	9.12	8.93	n.a.
Germany	6.20	6.30	5.75	5.00	4.65	4.65	4.95	4.80	4.80	4.60	4.35
Ireland	15.75	12.19	15.13	10.50	10.38	10.25	10.25	10.50	12.00	15.25	16.25
Italy	19.00	17.88	16.88	14.38	14.38	14.38	15.00	14.63	14.63	15.50	n.a.
Netherlands	5.25	6.00	5.75	6.13	5.75	5.81	6.25	5.94	5.75	5.81	5.88
Portugal	15.05	24.11	24.57	24.65	22.63	22.69	22.69	22.49	n.a.	n.a.	n.a.
Spain	16.97	18.99	12.16	13.80	13.03	11.17	10.16	10.13	10.13	10.37	10.44
Switzerland	3.88	3.88	5.00	5.38	4.63	4.69	4.69	4.13	4.75	4.43	4.13
United Kingdom	10.50	9.31	9.88	11.13	11.56	11.50	11.50	11.50	12.75	12.75	12.25
Australia	9.85	9.05	12.90	15.20	16.70	16.50	16.35	18.65	19.75	18.75	16.75
Japan	6.96	6.45	6.33	6.29	6.30	6.33	7.11	7.55	7.03	6.12	5.92
New Zealand	16.75	12.10	15.25	25.30	26.75	27.20	24.95	20.50	n.a.	n.a.	n.a.
South Africa	15.26	19.12	22.78	17.80	16.50	15.25	14.03	13.20	n.a.	12.55	12.40
Chile	55.90	20.68	20.68	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	9.25	14.88	8.25	5.31	6.00	5.63	6.00	6.50	6.50	6.83	6.81
Indonesia	18.50	19.50	19.00	15.50	15.50	15.00	14.50	14.50	15.00	14.50	14.50
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.50	9.80	10.30	7.00	8.50	7.50	7.25	8.25	8.20	8.30	8.70
Philippines	15.96	15.61	33.21	21.25	20.48	16.56	25.11	22.45	14.61	23.05	n.a.
Singapore	8.69	8.44	7.00	5.13	4.56	6.38	5.81	5.44	5.88	5.53	5.31
Taiwan	n.a.	8.07	7.85	6.70	7.33	5.76	5.13	4.51	4.10	3.17	3.10
Thailand	12.25	16.00	12.00	12.00	12.00	12.00	13.50	15.00	15.50	11.50	11.25

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985						1986	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	8.25	7.70	8.35	7.95	7.88	7.80	7.80	7.88	7.75	7.75	7.60
Canada	9.85	9.82	10.05	9.20	9.10	8.90	8.65	9.20	9.40	11.20	12.00
Austria	6.25	6.50	7.50	6.38	5.75	5.25	5.63	6.13	6.50	6.25	6.38
Belgium	12.25	11.25	10.63	9.50	9.31	9.13	8.75	8.50	9.63	9.88	9.75
Denmark	9.00	6.00	6.00	5.00	5.00	7.00	7.00	7.00	7.00	7.00	7.00
Finland	4.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.25	4.25
France	8.24	7.66	7.04	6.69	6.49	6.44	6.27	6.07	6.12	6.03	n.a.
Germany	6.00	5.90	5.25	4.45	4.25	4.25	4.55	4.45	4.40	4.25	4.25
Ireland	15.25	11.75	14.63	10.00	10.00	9.50	9.88	10.25	11.87	15.25	16.00
Italy	13.25	13.25	11.64	10.86	10.86	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	5.38	6.13	5.69	6.00	5.69	5.69	6.19	5.81	5.81	5.69	5.75
Norway	13.50	12.75	12.75	12.25	12.00	12.00	12.00	12.00	12.00	12.25	12.25
Portugal	15.00	21.50	28.00	27.00	24.00	24.00	24.00	20.00	20.00	20.00	n.a.
Spain	12.53	12.62	11.64	10.55	10.49	10.42	10.20	9.90	9.64	9.61	n.a.
Sweden	12.15	11.70	11.45	14.95	14.61	13.90	14.08	12.71	12.18	12.45	11.45
Switzerland	3.00	3.50	4.50	4.63	4.38	4.25	4.50	3.75	4.50	4.25	3.94
United Kingdom	10.31	9.31	9.88	11.06	11.31	11.28	11.44	11.38	11.75	12.75	12.13
Australia	10.20	10.40	12.75	14.80	15.89	16.76	16.20	17.76	18.80	18.63	17.44
Japan	7.00	6.40	6.38	6.35	6.41	6.43	7.32	7.93	7.05	6.24	6.10
New Zealand	16.50	11.50	15.25	24.50	25.00	23.00	24.50	21.25	n.a.	n.a.	n.a.
South Africa	15.25	20.13	22.88	18.50	17.25	16.00	15.00	13.20	n.a.	12.70	12.65
Argentina*	8.50	14.50	31.23	7.00	7.00	5.30	4.80	5.25	5.40	5.40	4.75
Brazil	21.00	23.00	27.00	23.00	23.00	18.00	17.00	16.00	18.00	18.00	18.50
Chile	47.09	20.57	20.68	29.20	n.a.	15.08	16.79	18.25	20.68	18.25	18.25
Hong Kong	9.25	14.88	8.25	5.31	6.00	5.63	6.00	6.50	6.50	6.63	6.81
Korea	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	8.40	7.75	9.58	8.17	8.17	8.17	7.00	7.00	7.00	7.00	7.00
Mexico	52.54	57.15	47.45	64.35	65.20	65.80	66.80	69.60	72.90	73.60	75.75
Philippines	14.10	14.96	31.01	18.60	17.35	14.26	12.45	12.42	12.34	11.66	n.a.
Singapore	8.25	7.44	6.13	4.88	4.51	6.38	5.81	5.01	5.26	5.01	5.01
Taiwan	7.50	7.00	6.50	3.00	6.00	5.75	5.75	5.25	5.25	5.25	5.75
Thailand	10.00	10.00	13.00	10.50	10.00	10.50	10.50	10.50	10.50	10.50	11.00
Venezuela	15.50	12.00	12.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985						1986	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	10.61	12.00	11.61	10.91	10.63	10.67	10.62	10.06	9.49	9.45	8.31
Canada	11.69	12.02	11.66	10.91	10.79	10.96	10.72	10.34	10.04	10.49	9.96
Austria	8.81	8.02	8.04	7.77	7.58	7.34	7.38	7.55	7.61	7.62	7.68
Belgium	12.66	11.89	11.56	10.50	10.59	10.42	9.65	9.43	9.60	9.62	9.38
Denmark	20.14	12.96	14.60	10.76	10.72	11.23	10.79	10.50	9.67	10.12	n.a.
Finland	10.64	11.16	10.73	10.48	10.42	10.35	10.36	10.50	10.58	9.74	9.96
France	15.40	13.96	12.70	11.87	11.96	11.97	11.59	11.22	11.33	10.79	10.10
Germany	7.90	8.38	7.17	6.88	6.52	6.55	6.90	6.91	6.57	6.64	6.32
Ireland	14.54	14.25	14.90	11.20	11.74	11.92	11.84	12.10	11.84	11.92	10.68
Italy	19.70	17.69	14.52	14.08	14.04	13.74	13.73	13.70	13.67	13.46	13.83
Netherlands	8.16	8.58	7.72	7.23	6.92	6.87	7.03	7.01	6.96	6.81	6.84
Norway	13.32	12.50	12.00	12.70	12.70	12.70	12.70	12.70	13.10	13.10	13.20
Portugal	16.63	22.11	22.23	20.34	20.14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	15.46	17.25	13.93	14.48	14.37	13.92	12.58	12.12	12.30	12.35	12.36
Sweden	13.01	12.30	12.04	12.98	13.22	13.54	13.40	13.10	12.11	12.23	11.60
Switzerland	4.23	4.53	4.60	4.80	4.69	4.66	4.57	4.53	4.42	4.47	4.31
United Kingdom	10.62	9.94	10.25	10.16	10.22	10.15	10.16	10.17	10.35	10.56	9.83
Australia	13.00	13.65	13.50	13.30	13.95	13.80	14.55	15.05	14.85	14.10	13.59
Japan	7.96	7.45	6.36	6.38	6.46	6.36	6.55	6.84	6.10	6.10	5.30
New Zealand	12.84	10.50	16.90	17.86	17.80	18.35	18.10	17.00	n.a.	n.a.	n.a.
South Africa	11.31	13.64	16.55	15.90	16.20	16.65	17.50	17.50	n.a.	17.57	17.30
Philippines	13.64	14.47	18.54	13.29	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Venezuela	15.00	13.50	14.00	12.00	12.00	12.00	12.00	12.00	12.00	12.25	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985						1986	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	11.50	11.00	10.75	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Canada	12.50	11.00	11.25	10.50	10.25	10.25	10.00	10.00	10.00	11.50	13.00
Austria	11.75	9.25	9.25	9.25	9.25	9.25	9.00	9.00	9.00	9.00	9.25
Belgium	15.50	13.75	14.00	12.00	12.50	12.00	11.50	11.00	11.50	12.25	12.25
Denmark	14.00	10.00	10.50	9.50	9.50	8.50	8.50	8.50	8.50	8.50	8.50
Finland	8.95	10.18	10.68	10.40	10.43	10.42	10.43	10.40	10.37	9.90	n.a.
France	12.25	12.25	12.00	10.85	10.85	10.85	10.85	10.60	10.60	10.60	n.a.
Germany	8.75	7.75	7.75	7.75	7.25	7.25	7.25	7.25	7.25	7.25	7.25
Ireland	16.50	13.75	15.75	13.25	13.50	12.50	12.50	12.50	12.50	14.50	17.50
Italy	20.75	18.75	18.00	17.00	17.00	17.00	16.50	16.00	n.a.	n.a.	n.a.
Netherlands	6.25	7.00	6.25	7.25	6.25	6.25	6.38	6.50	6.25	6.25	6.38
Norway	14.50	13.50	13.00	12.90	13.10	12.70	12.90	12.80	12.40	13.50	14.00
Portugal	23.50	30.00	29.00	29.00	26.50	26.50	26.50	22.50	22.50	22.50	n.a.
Spain	16.90	17.31	15.84	15.53	15.49	15.36	14.98	14.80	14.75	14.66	14.51
Sweden	15.00	13.50	14.50	15.25	15.25	15.25	14.75	14.75	15.05	14.00	14.00
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	10.00	9.00	9.50	11.50	11.50	11.50	11.50	11.50	11.50	12.50	12.50
Australia	15.00	12.75	14.00	17.75	17.75	18.50	18.50	19.50	21.00	20.60	20.50
Japan	6.28	5.89	5.70	5.69	5.69	5.69	5.69	5.70	5.75	5.70	5.66
New Zealand	13.00	11.00	14.00	24.00	22.00	23.00	22.50	21.50	n.a.	n.a.	n.a.
South Africa	18.00	20.00	24.00	21.00	21.00	19.50	17.50	16.50	16.50	15.50	15.50
Argentina*	9.00	15.50	32.05	8.50	9.00	5.75	5.60	7.25	7.30	7.00	6.40
Brazil	23.81	24.00	31.00	24.56	24.50	19.00	18.00	17.00	19.00	19.00	19.50
Chile	64.11	30.90	60.82	51.47	n.a.	35.53	32.36	31.88	33.34	33.46	35.77
Hong Kong	10.50	13.50	11.00	6.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Indonesia	22.00	19.75	23.50	20.75	20.25	19.50	19.00	19.00	18.75	18.50	20.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.50	11.00	12.00	11.00	11.00	11.00	10.50	10.50	10.50	10.50	10.50
Mexico	46.12	56.44	47.54	57.00	59.06	60.98	62.29	63.39	65.66	68.55	70.30
Philippines	18.00	18.00	44.00	27.00	23.00	n.a.	n.a.	15.50	n.a.	n.a.	n.a.
Singapore	9.33	8.98	9.40	8.03	7.28	7.20	7.23	7.20	7.20	7.20	7.20
Taiwan	10.75	10.25	10.00	10.00	10.00	9.75	9.75	9.50	9.50	9.50	9.50
Thailand	16.00	16.00	16.50	16.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50
Venezuela	17.00	16.00	16.00	14.00	14.00	14.00	14.00	13.00	13.00	13.00	13.00

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985						1986	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	11.75	12.63	12.25	11.65	11.38	11.50	11.25	10.75	10.15	10.38	9.00
Canada	12.74	12.89	12.42	11.62	11.49	11.56	11.26	10.98	10.74	12.08	12.95
France	15.86	14.35	12.94	12.06	12.17	12.36	12.03	11.84	11.65	11.35	n.a.
Germany	8.20	3.30	7.20	7.10	6.90	6.80	6.90	7.00	6.90	6.80	6.80
Netherlands	7.80	8.51	7.51	7.28	7.28	n.a.	n.a.	n.a.	n.a.	n.a.	6.86
Norway	14.13	13.25	12.75	13.50	13.50	13.50	13.50	13.50	14.00	14.00	14.00
Spain	17.10	20.07	18.32	16.27	16.37	16.47	15.81	15.80	14.92	14.87	14.82
Sweden	13.37	12.21	12.33	13.25	13.25	13.50	14.00	13.50	13.25	13.21	12.73
Switzerland	5.80	4.92	5.09	5.09	5.05	5.02	4.99	4.99	4.93	4.78	4.71
United Kingdom	12.34	11.57	11.64	11.22	11.22	11.17	11.14	11.18	11.47	11.59	10.88
Japan	7.55	7.09	6.21	6.55	6.46	6.36	6.26	7.56	6.90	6.70	5.69
Korea	16.00	14.20	15.00	14.10	13.90	13.80	13.70	13.60	13.60	13.00	12.60
Venezuela	18.00	18.00	18.00	17.00	17.00	17.00	17.00	17.00	17.00	17.50	17.00

World Financial Markets

Morgan Guaranty Trust Company of New York

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Table 1

Economic growth

	Real GDP % per annum		Real GDP per capita % change from early 1980s* peak to	
	1982- 1983	1984- 1985	1986	1986
Argentina	-1.0	-1.1	2.0	-16.8
Brazil	-1.1	6.4	3.0	-1.9
Chile	-7.6	4.4	4.0	-11.3
Colombia	1.0	3.0	4.5	1.8
Ecuador	-1.0	3.6	2.0	-6.7
Mexico	-2.9	3.2	-2.0	-12.9
Peru	-5.7	3.1	2.5	-15.0
Venezuela	-2.5	-0.9	-1.0	-12.3
8 major Latin American countries	-2.0	3.5	1.1	-8.0

Growth and financial market reform in Latin America

The revival of strong and sustainable economic growth is the paramount challenge facing Latin American countries. Their successful achievement of relatively satisfactory trade and current account results has not led to the hoped-for recovery in growth. Indeed, with the region's half-dozen oil exporters now retrenching, real GDP growth in Latin America as a whole is likely to average little more than 1% this year — implying a further slide in per capita incomes that will bring their cumulative decline to 8% on average since they peaked in the early 1980s (see Table 1).

In the decade prior to 1982, economic growth in Latin America was driven by government spending amid booming commodity prices, rapid export volume gains, and massive inflows of borrowed capital. The favorable external features have since been absent and look set to remain so. Non-oil commodity prices currently average about 20% below their 1980 peak. They are unlikely to rebound significantly in the near term given low inflation and moderate economic growth in industrial countries. Besides, basic structural changes in both demand and supply will continue to hold down

prices of most raw materials. Even the 25% effective dollar depreciation of the past twelve months has failed to promote much of a rise in dollar commodity prices. Petroleum-exporting countries, of course, are in a particularly difficult position.

Latin America's economic policies have had greater success in curbing import demand than in promoting new or substantially increased exports. Nor is the outlook promising for expanded export capacity in the immediate future. Meanwhile, the U.S. market, which accounted for almost half of Latin America's exports last year and for virtually all of its export gains since 1982, is no longer growing rapidly. Latin American penetration of European and Japanese markets remains low, and import demand in those markets continues slack.

International capital markets are not opening up to potential borrowers in the region. Involuntary lending linked to IMF-World Bank programs under the Baker initiative appears to be the only workable approach for some years to come. Yet the amount of commercial bank and official loans envisioned by the initiative pales in comparison with the \$40 billion per annum that flowed

Table 2

Investment and savings

percent of GNP in current prices

	<i>Investment*</i>	<i>Savings</i>	
		<i>National</i>	<i>Foreign**</i>
<i>Argentina</i>			
1979-80 avg.	25.2	23.3	1.9
1981	19.4	14.3	5.1
1982	19.6	13.6	6.0
1983	19.6	15.3	4.3
1984	17.3	12.6	4.7
1985	16.3	14.1	2.2
<i>Brazil</i>			
1979-80 avg.	22.7	17.6	5.1
1981	22.1	17.6	4.5
1982	22.4	16.3	6.1
1983	18.0	14.5	3.5
1984	17.4	17.1	0.3
1985	17.3	16.4	0.9
<i>Mexico</i>			
1979-80 avg.	27.8	23.9	3.9
1981	30.0	24.8	5.2
1982	22.5	23.3	-0.8
1983	21.6	25.8	-4.2
1984	23.0	25.4	-2.4
1985	25.4	26.1	-0.7

*Gross fixed capital formation plus increase in stocks, except for Brazil where data on stocks are unavailable.

**Measured by the deficit on current account, minus sign indicates surplus.

voluntarily into Latin America during the boom years of 1978-82.

Frustration over the growth outlook has led to calls for increases in new money inflows and reductions in interest payments. Interest rate relief is already coming to pass: with six-month Eurodollar LIBOR down to around 6¼% — nearly seven percentage points below the 1982 average level — debtor countries are experiencing a major reduction in debt-servicing costs. Beyond this market-determined reduction, any resort to unilateral moratoria, forced capitalization of interest, or insistence on below-market rates of interest would surely do more harm than good: it would cut access to existing commercial and official external finance and discourage any repatriation of resident-owned assets held abroad. Actions such as Peru has taken will neither increase available resources for development nor substitute for fundamental growth-oriented policy reforms.

Several countries in 1984-85 sought to resuscitate economic activity by loosening fiscal, monetary, and wage policies. Laxity only made matters worse: it pushed inflation intolerably higher (as in Argentina and Brazil), set back progress on external adjustment (Chile), or both (Mexico). The expansionary thrust of government policies has had to be reversed, most drastically in Argentina and Brazil. Mexico has delayed finalizing its 1986 program in view of oil market uncertainties.

A better way to achieve vigorous, sustainable economic growth in Latin America is through higher investment in productive, export-oriented or import-competing activities. This cannot happen unless there are strong incentives for residents to save — and to do so at home; opportunities are opened up for them and for foreigners to invest locally in sectors with comparative advan-

tage; and fair, stable rules come to govern the process of saving and investing. In turn, basic structural deficiencies must be remedied: public sectors that are overextended and mismanaged; trade regimes that are inward- instead of outward-looking; and financial markets that seldom work to promote savings or invest them efficiently.

Domestic investment in Latin America has slowed dramatically in recent years, mainly because the post-1982 drop in foreign savings generally has not been offset by a rise in national savings. In Argentina, capital formation has fallen steadily for five years, from over 25% of GNP in 1979-80 to an estimated 16% of GNP last year (see Table 2). In Brazil, investment has stabilized at around 17% of GNP, down from an annual average of 27% during the 1970s. Mexico, which saw investment drop from over 28% of GNP in 1979-81 to a low of 22% in 1982-83, has since witnessed partial investment recovery that will not be sustained this year or next.

The fall in investment must now be reversed if economic growth in Latin America is to take off and become self-sustaining. Financial markets normally would be expected to play a central role in this process. This article argues that, at present, government interference prevents Latin America's capital markets from playing even a supportive role. Not only do fiscal deficits drain available savings, but current government financing practices weaken the ability of the central banks to pursue noninflationary monetary policy. They also crowd out the private sector and distort the structure of interest rates, with adverse consequences for investment decisions in the public and private sectors. Government allocation of credit to the private sector also segments credit markets, fosters capi-

Table 3

Composition of national savings
percent of GNP in current prices

	Public sector*	Private sector	Total
Argentina			
1979-80 avg.	3.1	20.2	23.3
1981	-6.5	20.8	14.3
1982	-9.8	23.4	13.6
1983	-8.3	23.7	15.3
1984	-5.1	17.7	12.6
1985	3.2	10.9	14.1
Brazil**			
1980	3.4	13.6	17.0
1981	2.7	14.9	17.6
1982	1.1	15.2	16.3
1983	-0.2	14.7	14.5
1984	-1.0	18.1	17.1
1985	-3.6	20.0	16.4
Mexico			
1979-80 avg.	2.2	21.7	23.9
1981	-1.4	26.2	24.8
1982	-8.4	31.7	23.3
1983	-0.6	26.4	25.8
1984	0.5	24.9	25.4
1985	-3.1	29.2	26.1

*Nonfinancial public sector.

**Savings performance of public sector is underestimated, and of private sector is overestimated, by the inclusion of outlays for monetary correction in Brazilian government transfer payments.

Table 4

**Financing sources of
public-sector deficits***
percent of total financing
annual averages

	1980-81	1982-83	1984-85
Argentina			
Domestic	71	82	84
External	29	18	16
Brazil			
Domestic	92	90	93
External	8	10	7
Mexico			
Domestic	54	74	92
External	46	26	8

*Nonfinancial public sector.

tal-intensive or wasteful investment by preferred borrowers, prevents reallocation of investment to more competitive activities, and undermines the soundness of financial institutions. Government controls on interest rates, the tax treatment of interest, and accounting rules ill-suited to an inflationary environment discourage savings and its efficient intermediation by financial institutions, promote excessive corporate leveraging, and encourage capital flight. Unless government intervention in financial markets is sharply reduced, especially in Argentina and Mexico, it will be very difficult to expand the pool of savings, improve the productivity of investment, and accelerate economic growth.

Malfunctioning financial markets are prime examples of the underlying structural deficiencies characteristic of troubled LDC debtors. Despite the demonstrable progress made in terms of external trade and current account adjustment, the structural deficiencies block the restoration of confidence among their own residents and foreign creditors and investors alike, preventing a return to creditworthiness. To promote the normalization of capital flows and the stronger economic growth that they can underwrite, the time is ripe for comprehensive reforms of domestic institutions and policy practices. Such reforms are far from easy because they undercut vested political, business, and labor interests which have mushroomed under government protection and support. The needed reforms will require fully as much courage and determination on the part of political leaders as the painful, belt-tightening policies of the past four years. Yet, as the Baker initiative correctly points out, thoroughgoing structural reforms are the *sine qua non* for lasting recovery of economic growth.

Government as a borrower

Financial markets in Latin America are shallow and inefficient. These flaws are the legacy of four decades of government participation in, and regulation of, financial intermediation — through the public sector's presence as the leading borrower, its influence over credit allocation among private-sector borrowers, and its reluctance to let market forces provide incentives to save and invest domestically.

Government's dominant role in Latin America's financial markets dates back to the late 1940s and 1950s, when a new approach to economic development was espoused. It held that industrialization, fostered as necessary by protection and subsidies, was the only means to economic progress. Accordingly, major changes were introduced in fiscal, monetary, wage, exchange rate, and foreign trade policies. Downplaying traditional concerns with financial stability, central banks joined the effort to promote industrial development. They granted credit, directly and through rediscounts to banks, to qualified private and state-owned companies; set high reserve requirements to provide zero- or low-cost financing for expanded Treasury budgets; and established ceilings on interest rates to stimulate investment overall. Financial institutions were created by federal and even state governments in many countries to capture rural savings and channel credit to preferred users.

Subsidized industrialization proved highly expensive to governments. Savings in the public sector, measured by the difference between current revenues and current spending, failed to cover large-scale investment outlays, which increasingly had to be financed through borrowing. Annual budget imbalances of 5%-10% of GNP became common.

Table 5

Domestic financing of public-sector deficits*
percent of total domestic financing
annual averages

	1980-81	1982-83	1984-85
Argentina			
Central bank	52	68	44
Rest of banking system	39	40	64
Public debt instruments	4	4	0
Arrears and other	5	-12	-8
Brazil			
Central bank**	0	9	-5
Rest of banking system	73	68	68
Public debt instruments	22	19	36
Arrears and other	5	4	1
Mexico			
Central bank	71	73	52
Rest of banking system	21	14	36
Public debt instruments	8	13	12
Arrears and other	0	0	0

*Nonfinancial public sector.

**Through end-1985 the Banco Central do Brasil and the Banco do Brasil jointly comprised the monetary authority.

During the 1970s, for example, Mexico and Argentina recorded yearly deficits averaging 6½% and 7½% of GNP, respectively. In the early 1980s, these and other countries recorded still higher deficits, in the range of 10%-20% of GNP.

The poor and deteriorating savings performance of the public sector in the three largest Latin American countries is illustrated in Table 3. Despite their large size and potential contribution to national savings, the public sectors of Argentina, Brazil, and Mexico have become net users of household and corporate savings. Argentina's recent fiscal progress has come at the price of an equivalent reduction in private-sector savings.

The dearth of public-sector savings has had several consequences not anticipated by the advocates of industrialization. First, it has contributed to the accumulation of external debt because governments, their agencies, and state-owned companies have sought financing abroad. The extreme case is Mexico (see Table 4). At present, more than half the total indebtedness of the nonfinancial public sectors and the central banks of Argentina, Brazil, and Mexico is external rather than domestic.

Second, it has weakened the ability of central banks to control monetary aggregates and thus limit inflation. In Argentina and Mexico, for instance, the bulk of domestic financing to the public sector has been provided directly by the monetary authorities (see Table 5). In theory, the public sector's credit needs might have been fulfilled with no inflationary consequences had credit to the private sector been correspondingly reduced. In practice, however, central banks in Latin America have been unable, politically, to impose overall quantitative controls on credit to the private sector or to let interest rates rise

enough to curb private demand for credit and induce greater financial savings. Even in Brazil, where there has been little or no reliance on central bank financing, monetary policy has tended to accommodate government and private-sector borrowing needs passively, with the same loss of control over monetary growth and inflation as in the other countries (see Table 6).

Third, public-sector borrowing has crowded out the private sector. The share of total credit expansion going to the public sector rose in Argentina from 22% in 1980-81 to 36% in subsequent years; in Brazil it increased from about 24% to over 30%; and in Mexico it grew from almost 60% to over 80% in 1982-83 and still was as high as 65% in 1984-85 (see Table 7). By the end of last year, government agencies and corporations accounted for 35% of credit outstanding in Argentina, 32% of total credit in Brazil, and 72% in Mexico. In inflation-adjusted terms, credit to the public sector grew substantially in all three countries during 1980-83 even as credit to the private sector was being reduced. Only in the past two years — in Brazil and Mexico, but not in Argentina — has credit to the government been cut while some loan expansion to private borrowers has taken place (see Table 8).

Fourth, the financing of public-sector deficits in most countries has severely distorted the structure of interest rates. With few exceptions (mainly Brazil and Chile in recent years), governments have obtained a major portion of their financing from the banking system at below-market interest rates. Central banks are usually required to purchase Treasury obligations and they, in turn, impose high reserve requirements on commercial banks.

Argentina and Mexico, in particular, have a long history of very high reserve requirements. Although Ar-

Table 6

Money and prices

percent change in money plus quasi money
(M) and in consumer prices, Dec-Dec

	Argentina		Brazil		Mexico	
	M	CPI	M	CPI	M	CPI
1980	86	88	61	95	37	30
1981	113	131	94	93	49	29
1982	162	210	85	103	71	99
1983	402	434	136	164	63	81
1984	611	688	260	209	67	59
1985	424	385	317	234	45	64

Table 7

**Public-sector share of credit
extended by domestic financial
institutions**

	Argentina	Brazil	Mexico
Percent of total credit expansion, annual averages			
1980-81	22.3	24.3	58.1
1982-83	34.1	34.1	82.0
1984-85	36.4	30.3	65.1
Percent of total credit outstanding, at year-end			
1980-81 avg.	19.3	20.9	57.7
1983	39.1	33.8	76.3
1985	35.5*	32.1	72.5

*September.

Table 8

**Growth of credit to public and
private sectors from domestic
financial institutions**
in real terms, percent per annum

	1980-81	1982-83	1984-85
Argentina			
Public sector	66.3	19.2	-22.1
Private sector	12.1	-13.9	-13.9
Brazil			
Public sector	20.0	28.8	-1.6
Private sector	-3.1	-2.1	2.4
Mexico			
Public sector	13.7	10.4	-2.0
Private sector	8.1	-24.9	8.1

Table 9

Reserve requirements*
percent of demand and time deposits
at commercial banks, at year-end

	Argentina**	Brazil	Mexico
1980-81 avg.	9	19	49
1982	79	20	57
1983	75	16	58
1984	57	23	53
1985	52	17	39

*Required reserves on deposit with monetary authorities or held in the form of government securities. Data for Argentina include shortfalls from required reserves. Data for Mexico include some reserves held voluntarily with the Bank of Mexico.

**Commercial and savings banks.

Argentina's requirements were lowered substantially in the late 1970s, since 1982 the bulk of deposits has been reservable up to 100% — offset in part by rediscounts. At present, complex requirements immobilize over half the deposits (see Table 9). Requirements in Mexico were increased sharply during the late 1970s and early 1980s to a peak of almost 60% of deposits. The trend began to be reversed a year-and-a-half ago, but reserves still average about 40% of total deposits. Brazil, by contrast, has never imposed extreme reserve requirements; those on commercial banks averaged under 20% of deposits during the 1960s and 1970s and government policy during the past year has lowered requirements further.

Reliance on these methods of deficit financing has hidden the cost of running deficits. The burden has been shifted to the public at large through the "inflation tax" on money holdings and by lower interest rates on bank deposits and higher rates on bank lending than would otherwise prevail. As shown in Table 10, the annual average rate of interest paid on internal debt by the governments of Argentina and Mexico during 1980-85 has never compensated for the effect of inflation on the value of obligations. Had nominal interest rates on government debts matched rates of inflation starting in 1980, assuming also no adjustment in other public-sector accounts, the interest bill on Argentine and Mexican domestic indebtedness would have grown explosively in the years thereafter, instead of gradually or not at all (see Table 11).

Quite differently, Brazil's government obtained funds from financial intermediaries and the public at large mostly on a voluntary basis; it has offered a rate of return usually higher than inflation. Treasury bonds indexed to inflation and bearing an interest rate above indexation

have been issued since the mid-1960s to meet deficit financing requirements, and nonindexed Treasury bills have been auctioned at competitive discounts since 1970. Loans by the banking system to the government have been indexed as well. This approach clearly raised public-sector financing costs and magnified overall borrowing requirements. It also paved the way for widespread indexation of the Brazilian economy and self-perpetuating inflation — a condition the current anti-inflation program, the Cruzado Plan, attempts to redress. Nevertheless, Brazil's more forthright approach to budgetary financing has helped develop a capital market that is less distorted than in Argentina and Mexico.

Harder to quantify, but nonetheless important, is the effect that government access to seemingly low-cost financing has had on investment decisions in the public sector. Over the years an artificially low cost of capital relative to other input costs has signaled government planners and managers in state-owned companies that capital-intensive projects make eminent sense. This helps to explain why government-run industries often borrow heavily to invest in capital-intensive production methods when less costly, labor-intensive methods may be more appropriate. It also accounts for underused capacity in many capital-intensive government projects and poorer maintenance of physical plant.

**Government and the allocation
of credit**

Beyond their public-sector burdens, financial markets in Latin America have been distorted by credit allocation rules. These made their appearance in the late 1940s and have remained in effect in most Latin

Table 10

Average interest rate on public-sector domestic debt and average inflation rate
percent per annum

	Argentina		Brazil		Mexico	
	Interest rate*	Consumer prices	Interest rate**	Consumer prices	Interest rate*	Consumer prices
1980	19.9	100.8	n.a.	82.8	10.8	26.3
1981	30.9	104.5	89.0	98.6	16.9	27.9
1982	19.2	164.5	131.3	100.4	21.7	58.9
1983	10.4	343.8	136.7	133.4	28.5	101.9
1984	7.2	626.7	250.2	188.8	37.3	65.4
1985	11.2	673.4	270.4	224.6	32.6	57.7

*Derived from comparing the annual interest expense on domestic indebtedness incurred by the nonfinancial public sector with the estimated midyear stock of its domestic debt.

**Derived from data on bonded debt of the central government.

Table 11

Public-sector interest payments on domestic debt*
percent of GDP

	Argentina		Mexico	
	Actual	Hypothetical**	Actual	Hypothetical**
1980	2.6	5.3	2.0	7.6
1981	5.2	12.7	3.3	10.3
1982	5.7	23.4	5.9	35.7
1983	2.0	36.4	7.9	27.0
1984	3.7	51.6	9.1	18.8
1985	3.5	34.7	8.6	20.6

*Derived from data for the nonfinancial public sector.

**Calculated by applying a nominal rate of interest equal to inflation to the end-1979 stock of public debt, and to all subsequent borrowing requirements, assuming no adjustment to other revenue and expenditure accounts.

Table 12

Rediscounts

central bank credit to financial institutions as percent of loans outstanding at financial institutions, at year-end

	Argentina	Brazil	Mexico
1980-81 avg.	12	4	2
1982	45	3	4
1983	27	2	1
1984	29	2	1
1985	39*	2	1

*September.

American countries ever since. Credit allocation entails granting central bank rediscounts to financial intermediaries, often favoring financially troubled or state-owned banks, for lending to specified categories of borrowers; setting loan portfolio requirements for financial institutions; or establishing state-owned banks or trust funds with a mandate to lend for certain purposes. Credit to designated users usually is made available on very favorable terms relative to other prevailing rates.

The use of the central bank's discount window to direct credit is especially well established in Argentina (see Table 12), where high reserve requirements often have been imposed precisely to enable the authorities to gain fuller control over banks' loan portfolios. A large increase in required reserves in mid-1982, for instance, was approved at the same time that a major rediscount facility was opened to steer banks into rescheduling the short-term debt of highly leveraged private-sector companies at very low interest rates. More recently rediscounts have been used to fund government-owned banks with troubled loan portfolios. In contrast, rediscounts are not a tool of credit allocation in Brazil and Mexico.

Loan portfolio requirements are

another story. Banks in Mexico traditionally have had to lend between 25% and 40% of their deposits to priority borrowers, such as small farmers and enterprises and buyers of low-cost housing. Given high reserve requirements plus these loan portfolio requirements, banks' discretionary loan portfolios seldom have amounted to more than 20%-25% of deposits. Since July of last year, indeed, the freely lendable portion of new deposits has fallen to a record low of 11%, because a cut in marginal reserve requirements has been more than offset by increased allocations of credit to public-sector funds and programs.

Brazilian commercial banks are subject to more moderate portfolio requirements intended to benefit agriculture and small-scale industry. The minimum ratio of agricultural loans to demand deposits was gradually increased to 35% by the end of 1982, and has ranged since then between 10% and 55%, depending on bank size. The requirement on working capital loans to small business was raised in 1981 from 12% to a range between 12% and 16% of demand deposits. Despite these increases, however, the effective burden of portfolio requirements has not risen over time because, with spiraling inflation, demand deposits dwindled from 85% of total bank deposits in the early 1970s to about 40% in 1984-85. Thus, the reserve and portfolio requirements imposed since 1980 have not reduced the freely lendable portion of demand and time deposits below 60%.

The creation of government-owned financial institutions to control credit allocation firsthand became commonplace throughout Latin America two to four decades ago. In Argentina, the federal government owns two commercial banks, a development bank, a mortgage bank, and a savings bank; provincial governments own twenty-four

Table 13

Market share of state-owned financial institutions*

at year-end

	Argentina	Brazil	Mexico
Deposits**			
1980-81 avg.	41	58	11
1982	49	60	99
1983	45	59	99
1984	46	58	99
1985	57	61	99
Loans***			
1980-81 avg.	45	48	51
1982	51	51	99
1983	50	51	99
1984	50	31	99
1985	57	54	99

*Excludes central bank in all cases and also Banco do Brasil in the case of Brazil.

**Demand, time, savings, and other deposits.

***Includes loans made by financial intermediaries that do not accept deposits.

commercial banks, a development bank, and an investment bank; and municipalities own five commercial banks. Altogether, these institutions now account for about 57% of deposits and loans in the banking system, up from 41%-45% in 1980-81 (see Table 13).

In Brazil, the federal government owns three commercial banks, three development banks, and a savings bank; state governments own twenty-four commercial banks, thirteen development banks, four savings banks, and several investment banks, plus consumer finance and real estate credit companies. These intermediaries receive about 61% of banking system deposits and account for 54% of total loans. Including the giant Banco do Brasil, which recently became a commercial bank, the government's market share of end-1985 deposits was 68% and of loans, 57%.

The Mexican government owns eight development banks, over thirty trust funds and, since their nationalization in September 1982, nineteen out of twenty-one commercial banks. The trust funds make loans and give guarantees mainly to farmers, small enterprises, and exporters of manufactures. They are backed by budgetary transfers, loans from the central bank and multilateral development agencies (for example, the World Bank), and required loans from commercial banks. The share of total loans and deposits handled by state-owned financial intermediaries is now 99%. Even prior to the 1982 nationalization, government-run development banks and trust funds accounted for over half of all loans.

Pervasive government involvement in credit allocation has had several negative consequences in Latin America. First, it has created an entrenched class of favored borrowers — typically a combination of large privately and state-owned corpora-

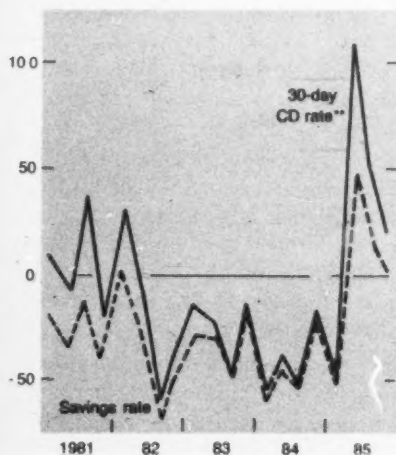
tions, small-scale farmers in depressed agricultural areas, and middle-class urban dwellers, who have grown used to assured access to longer-term and lower-cost credit. Their access to concessional financing has fostered capital-intensive investments, often in labor-surplus regions and in activities that otherwise would employ labor-intensive production methods. It also has led to widespread abuse, exemplified by the use of low-cost farm credit for nonagricultural purposes.

Second, credit allocation rules have held back progress, competition, and efficiency by penalizing entrepreneurs. Lacking government support, many find bank credit in short supply and inordinately expensive. Small and medium-sized companies without an established credit record often must turn to "curb" markets for working capital at terms that discourage investment and output growth. This has thwarted private initiative by reinforcing structural rigidities when, instead, investment should grow and resources be reallocated toward more productive activities.

Third, the soundness of financial institutions has been undermined. By requiring lending at lower rates and for longer maturities to borrowers of lesser creditworthiness, credit allocation rules have burdened institutions with low-yielding and less-liquid assets of poor quality. These loans, together with high reserve requirements, have further limited banks' ability to pay attractive rates of interest to depositors and have pushed up rates charged on loans to nonpreferred customers. In all, credit allocation has created strong incentives for financial intermediation beyond the reach of reserve and portfolio requirements. Unregulated intercompany markets (especially in Argentina and Mexico) and finance companies now compete quite effectively with banks.

Chart 1

Argentina: real interest rates* percent per annum

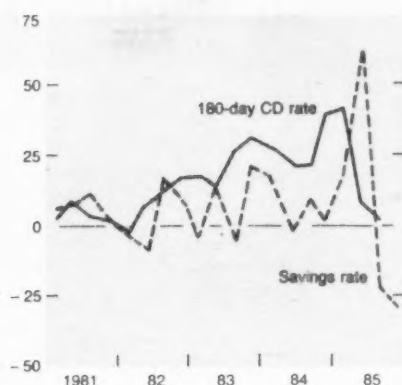


*Nominal rates deflated by consumer price inflation.

**Regulated rate until March 1985, free rate thereafter.

Chart 2

Brazil: real interest rates*
percent per annum



*Nominal rates deflated by consumer price inflation.

Government and the generation of savings

Government policy in Latin America also has been detrimental to savings — particularly to savings at home. Interest rate controls on bank deposits and other financial instruments and the tax treatment of interest earnings and expenses are the main obstacles to better savings performance and greater financial deepening.

Controls on nominal interest rates also date back to the 1940s. Governments were concerned that rates would deter needed investment. The view at the time was that savings, including financial savings, are mainly a function of disposable income and largely unresponsive to interest rates. Thus, financial incentives to save were not needed.

The flaws in this approach became apparent during the 1950s. Expansionary demand-management policies generated inflationary pressures that turned preestablished interest rates on financial instruments sharply negative in real terms. Contrary to expectation, disintermediation and capital flight quickly followed. Most governments found it necessary to loosen controls or at least adjust administered interest rates upward to preserve financial stability. The authorities in Brazil went furthest: in the mid-1960s they legalized the indexation of financial contracts, pushing up the structure of interest rates in close relation to inflation — while forsaking neither regulation of rates paid above monetary correction nor manipulation of the applicable index itself. In the late 1970s interest rates were actually freed in Argentina and Chile, although financial markets were distorted by the parallel decision to fix those countries' exchange rates at unrealistic levels. Since 1982, interest rates have returned to strict control in Argentina

and have been managed in Chile.

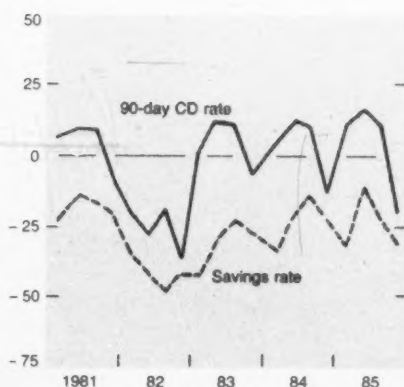
Despite growing recognition that interest rates do matter, Latin America's financial market liberalization has been generally insufficient or too short-lived to assure depositors of a steady, positive rate of return. Realized real interest rates, measured by nominal interest rates deflated by recorded inflation, have tended to fluctuate widely but mostly in a negative range. For example, when adjusted for inflation deposit rates available to small savers have been strongly negative in Argentina and Mexico since 1981, and have alternated between negative and positive in Brazil (see Charts 1-3). Realized rates of return on certificates of deposit issued by commercial banks, meanwhile, have been mostly negative in Argentina, periodically positive in Mexico, and positive for the most part in Brazil.

Worse, low interest rates have encouraged savings in dollar-denominated assets rather than in local-currency instruments. Charts 4 and 5 compare the dollar-equivalent values of a \$1000 local-currency savings deposit or CD made in December 1980 in Argentina, Brazil, Mexico, and the United States, assuming in all cases that interest is reinvested. The reason for the poor performance of deposit instruments in Argentine and Mexican currency — and, to a lesser extent, in Brazilian currency — is government failure to permit domestic interest rates that are high enough to match or exceed exchange-rate-adjusted rates of return available abroad.

The problem is aggravated by the difference in the tax treatment of interest. Nonresident deposits in the United States are free of U.S. taxes and, if interest earnings on such deposits are undeclared in Latin America, as often is the case, they are effectively free of tax altogether. Other than on passbook savings, however, interest on deposits in

Chart 3

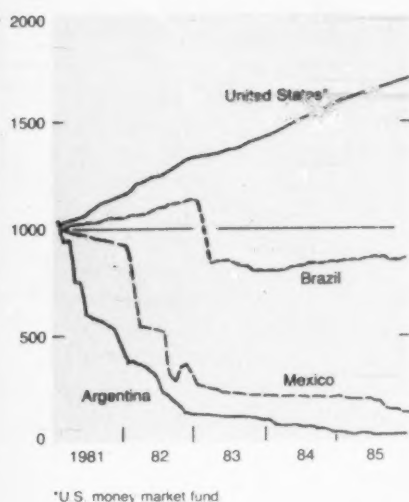
Mexico: real interest rates*
percent per annum



*Nominal rates deflated by consumer price inflation.

Chart 4

Cumulative dollar values of domestic savings deposits



Latin American financial institutions is generally taxed at source — and the applicable tax rates have tended to go up in recent years. These taxes can bite deeply into any pre-tax real rate of return. For instance, a hypothetical deposit rate of 100% per annum, taxed at 10%, reduces to zero the real after-tax return when inflation is 90%. Only in Brazil, prior to this year's abolition of indexation, did tax rates apply solely to the return above inflation.

The interaction of tax rates and inflation also can discourage business saving and promote debt over equity financing unless inflation accounting is used to assess corporate tax liabilities — as it was not in Argentina until recently and still is not in Mexico. Thus, in the absence of inflation accounting, a successful project gives rise to inflated profits that are taxed excessively in inflation-adjusted terms if financed from retained earnings. By contrast, where the cost of financing with borrowed funds can be deducted from nominal operating profits, taxes on real gains are minimized and the real cost of borrowed funds on an after-tax basis can be highly negative. The inadequacies of inflation accounting outside Brazil go far to explain the undercapitalization common to many Latin American companies.

Reliance on administered interest rates in the face of inflation, devaluation, and taxation has obstructed financial development in Latin America. It has reduced the pool of savings channeled through financial intermediaries into domestic capital formation and economic growth, and has encouraged the acquisition of better-yielding foreign assets — capital flight.

That currency and demand deposits should have lost appeal in the face of inflation comes as no surprise. Ratios of M1 to GDP have shrunk to the equivalent of 3%-5%

in Argentina, Brazil, and Mexico — one-fourth to one-fifth the monetization observed in European or Asian countries with similar per capita incomes (see Table 14). More revealing of financial underdevelopment, however, is a comprehensive measure of financial depth that includes interest-bearing instruments: ratios of total liquid liabilities of domestic financial institutions to GDP range between 17% and 27% in the three major Latin American countries, versus 50%-110% in other countries at a similar stage of development. This is true despite extensive networks of bank branches in Latin America — the kind of saturation banking always fostered by high inflation, as bank profitability becomes largely a function of the ability to capture sight and other deposits paying little interest. Also, inflation — especially in the absence of indexation — has prompted shortening of maturities, giving a potentially destabilizing volatility to bank deposits and reducing the horizon of business investments for lack of long-term funding.

Capital flight from the region has become endemic, particularly from Argentina and Mexico. The absence of local-currency-denominated liquid assets offering positive real returns (especially after taxes) that are competitive with those available abroad has led to widespread dollarization and the massive transfer of wealth offshore. While estimates vary, capital flight from Argentina and Mexico during the past decade — at least \$25 billion and \$50 billion, respectively — is equivalent to between two and three years' capital formation in these two countries. Nonbank Argentine and Mexican residents hold identified deposits exceeding \$8 billion and \$15 billion, respectively, in banks abroad — substantial sums in relation to these countries' domestic financial markets. As shown in Table 15, they are

Chart 5

Cumulative dollar values of certificates of deposit

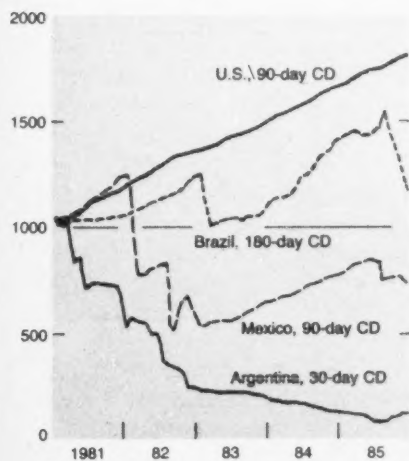


Table 14

Monetary aggregates
percent of GDP, as of mid-1985

	Money (M1)	Liquid liabilities of financial institutions
Argentina	4.1	16.7
Brazil	2.7	26.9
Mexico	4.6	21.3
Greece	14.2	80.9
Korea	8.4	47.0
Malaysia	17.0	108.2
Portugal	25.0	80.0
Spain	20.7	84.0

Table 15

Deposits of nonbanks held domestically and abroad
billions of dollars, at year-end

	In domestic banking system*	In banks abroad	Deposits abroad as % of domestic deposits
Argentina			
1981	24.3	6.7	28
1982	8.2	7.1	87
1983	8.4	7.9	94
1984	7.7	7.6	99
1985**	7.1	8.2	115
Brazil			
1981	47.7	3.9	8
1982	49.6	4.1	8
1983	35.1	8.1	23
1984	38.4	8.2	21
1985**	38.7	8.5	22
Mexico			
1981	70.5	9.4	13
1982	32.2	10.4	32
1983	36.8	12.7	34
1984	45.4	14.3	31
1985**	35.8	15.3	43

*Deposits (sight, time, and savings) and CDs in local currency converted at end-of-period exchange rates.

**September.

equivalent to over 100% of Argentine deposits in local banks and over 40% of Mexican deposits in their banks.

Financial motivations, though not the only ones, have driven capital out of Latin America. Negative interest rate differentials versus the United States, adjusted for exchange rate changes, are very important contributing factors. Estimated annual capital flight, as defined in the March issue of this publication, appears correlated with those rate of return differentials, at least for Argentina and Mexico in recent years (see Charts 6 and 7).

Conclusion

Financial markets in Latin America are not performing their vital development role of eliciting higher savings and investing savings efficiently. And they are not geared up to attract significant reflow of residents' assets now held abroad.

The problem lies in government policies. Until public sectors in Latin America are cut back in both scope and borrowing requirements, available savings will continue to finance inefficient bureaucracies and money-losing state companies — instead of capital formation with a high rate of return. Smaller and better-balanced government budgets, necessary though they be, are not a complete solution. Government financing practices must evolve away from compulsory, nonmarket mechanisms toward voluntary, market-determined vehicles that price capital appropriately for both public- and private-sector users. Warranted also are the dismantling of credit allocation rules and the phasing out of interest-rate subsidies, which ration capital resources to established, often inefficient companies at the expense of emerging industries. State-owned financial institutions should not en-

joy preferential treatment and should base their lending on sound economic and financial considerations. Finally, the structure of interest rates in most countries should be freed to encourage greater financial savings — at home rather than abroad.

In Argentina and Brazil the urgency of financial market reform is acknowledged by the authorities, who are drafting regulatory changes made all the more necessary by their drastic anti-inflation programs. In the past two years, Brazil has reduced interest rate subsidies and reserve requirements. Interest rates subject to ceilings became positive in real terms in Argentina following the adoption of the Austral Plan, and since then the nonregulated segment of the credit market has been allowed to expand. However, the extent of government- and inflation-induced distortions in Brazil — and especially in Argentina and Mexico — means that a great deal remains to be accomplished.

Reform of financial markets cannot be carried out in isolation from supporting macroeconomic policies. This is the lesson from past attempts in Latin America and more successful reforms elsewhere. More often than not, industries have received preferred access to credit at concessional rates as compensation for high labor costs, overvalued exchange rates, or high import tariffs. Likewise, farmers have been granted credit allocations and interest rate subsidies as offsets to government controls on food prices or taxes on exports. It is important, therefore, that financial market reform be undertaken in the context of wide-ranging reforms seeking to get all the key prices right. Only then will the allocation of resources in both the public and private sectors be improved, setting the stage for vigorous economic growth.

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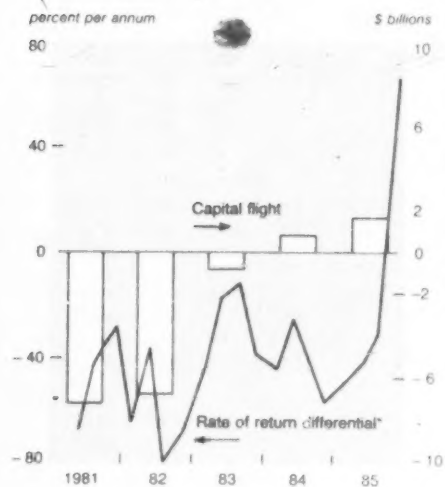
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Chart 6

Argentina: rate of return differential and capital flight



*Realized rate of return differential between Argentina and the United States on domestic CDs, adjusted for exchange rate changes.

the Baker initiative. To improve growth prospects the debtor countries need to raise investment and increase its productivity. This, in turn, requires expansion of domestic savings, reversal of capital flight, and efficient allocation of available resources. If financial market reforms and other structural changes are implemented to remedy existing deficiencies, then inflows of foreign capital can make an enduring and positive contribution to Latin American economic growth.

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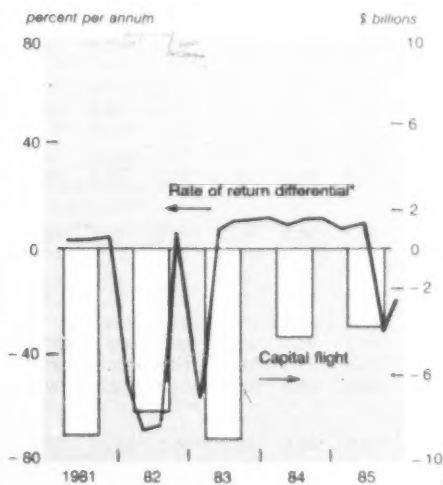
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Chart 7

Mexico: rate of return differential and capital flight



*Realized rate of return differential between Mexico and the United States on domestic CDs, adjusted for exchange rate changes.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.8	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985	127.1	92.8	115.8	76.3	85.4	107.7	82.2	88.2	104.2	89.5	103.9	75.6	109.5	95.0	95.6	83.9
1985																
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	83.7	96.0	83.8
June	130.5	93.2	112.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July	126.1	93.5	113.1	75.4	85.2	107.1	81.4	93.6	103.8	89.0	103.5	75.5	110.2	94.5	95.7	83.6
August	124.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September	125.2	92.1	114.9	74.0	86.3	108.6	79.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.9	91.3	123.6	71.8	87.3	109.8	80.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
November	117.0	90.3	129.5	67.9	87.6	109.9	80.2	89.7	105.2	90.5	105.6	72.8	113.4	96.5	94.8	83.3
December	116.1	88.9	129.2	67.8	88.3	111.3	80.2	88.3	105.9	90.4	106.7	72.9	112.3	97.3	94.9	83.1
1986																
January	115.1	87.9	130.1	69.1	88.8	112.5	81.0	85.3	106.4	91.1	107.6	73.0	112.1	97.6	94.8	82.7
February	111.2	87.5	138.8	66.9	89.5	113.5	81.7	82.6	106.8	91.6	108.2	73.2	114.2	98.1	95.3	82.0
March	109.0	87.3	142.3	66.5	89.6	113.8	82.0	83.1	107.1	91.7	108.5	73.8	114.0	98.3	94.7	81.9
April	108.0	88.0	145.0	67.4	86.7	114.1	81.8	84.9	107.1	92.7	108.7	73.7	114.9	98.4	94.6	81.9
March 28	109.7	87.5	142.2	67.6	89.1	113.0	81.6	84.9	106.7	91.2	108.0	73.3	113.9	97.6	94.6	82.1
April 4	110.4	88.1	143.6	68.2	88.2	112.7	81.0	85.3	106.5	91.0	107.8	73.1	114.0	97.1	95.0	82.3
11	110.1	88.5	142.5	68.1	85.9	113.6	81.7	85.0	106.9	92.5	108.4	73.4	114.2	98.2	94.8	82.2
18	108.1	87.7	143.6	66.9	86.3	114.2	82.0	84.9	107.2	93.7	108.6	73.8	115.1	98.6	94.5	81.9
25	105.9	87.6	147.9	66.7	86.7	115.0	82.3	84.3	107.4	92.9	109.2	74.0	115.7	99.0	94.4	81.6
May 2	105.1	88.1	148.6	67.1	86.9	114.9	82.3	84.8	107.2	93.0	109.3	73.9	115.7	98.8	94.0	81.6

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.3	98.8	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	96.2	99.4	100.2	92.1	101.7	92.1	101.8	90.5	103.6	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.5	101.0	89.3	102.7	90.9	100.0	95.1	99.4	96.5	100.1	96.9
1985	121.3	97.5	96.4	88.7	99.4	95.4	99.9	92.0	103.0	90.4	97.9	97.4	97.7	98.2	99.0	98.0
1985																
May	126.0	97.2	92.9	88.3	99.1	94.3	100.1	92.3	101.9	90.4	97.1	97.7	95.3	97.6	99.3	98.0
June	124.7	97.7	93.1	86.5	98.5	94.2	100.8	93.9	102.2	90.8	97.3	97.8	95.6	97.2	99.1	97.5
July	120.6	97.8	93.6	88.5	99.5	94.6	99.3	97.7	102.8	90.1	97.5	97.1	97.6	96.6	99.0	97.4
August	118.3	97.5	94.1	89.1	101.2	96.0	97.9	95.9	103.6	89.6	98.6	97.1	99.2	97.4	98.1	97.0
September	117.9	97.8	95.5	87.7	100.6	96.1	98.3	96.2	103.4	89.6	98.4	96.8	97.9	97.8	100.5	97.0
October	114.2	95.7	101.3	84.8	100.7	96.8	99.3	94.8	104.0	89.4	98.6	95.9	101.3	100.3	99.7	97.1
November	112.7	94.6	105.6	80.6	100.4	97.1	99.3	94.8	104.3	89.7	98.6	96.3	101.6	100.6	100.1	97.2
December	111.9	93.4	105.1	80.6	102.2	97.7	99.7	93.6	105.6	89.5	99.4	96.3	100.2	101.5	100.0	96.9
1986																
January	110.4	92.9	105.7	82.5	102.5	98.5	101.1	91.5	107.1	89.6	100.1	99.3	98.7	100.3	100.3	97.2
February	105.6	93.7	113.0	80.7	103.8	99.2	101.2	89.6	108.3	89.2	101.1	100.5	100.3	101.9	101.1	97.0
March	101.7	95.0	116.4	80.8	103.5	98.9	101.7	90.8	109.1	92.3	100.7	101.9	99.7	102.4	101.1	96.9
April	100.2	96.5	118.6	82.3	100.3	98.9	101.5	93.5	109.9	93.1	100.7	103.1	99.9	102.3	101.4	97.4

Real effective exchange rates — developing countries

Index numbers, 1930-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1981	107.4	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.2	104.4
1982	76.4	112.0	96.6	104.8	81.9	103.7	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.0	85.6	88.7	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.5	92.9
1984	79.8	85.5	89.8	99.3	91.5	105.6	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1985	70.9	84.7	79.4	85.3	90.1	97.0	92.5	106.0	95.7	88.7	115.8	114.2	89.6	92.9	105.6	91.0
1985																
April	76.0	89.0	81.4	91.2	98.9	95.9	92.4	108.7	100.2	92.1	118.5	118.7	94.4	96.1	112.5	96.4
May	76.5	84.1	82.7	88.9	97.9	99.7	93.6	108.9	100.0	91.0	118.9	117.4	93.1	95.1	104.5	94.1
June	75.4	80.9	84.7	86.7	97.4	99.8	93.4	108.1	98.9	90.0	118.5	116.4	91.3	94.5	105.2	90.0
July	67.8	78.8	76.7	83.3	93.9	99.7	92.8	105.3	96.1	87.7	116.2	113.5	87.8	91.8	99.1	86.5
August	66.9	80.6	74.1	81.6	82.0	92.1	92.8	103.2	94.5	85.8	114.6	110.2	86.1	90.2	98.3	85.2
September	67.6	80.9	75.5	80.7	82.7	94.6	94.1	104.9	94.6	85.9	115.4	111.6	86.9	90.9	101.7	86.2
October	65.0	79.4	73.0	76.3	78.8	93.3	90.9	101.7	88.7	81.9	110.8	106.5	84.3	87.6	100.6	85.2
November	64.1	80.1	72.5	73.7	77.1	94.4	90.4	100.6	86.6	80.6	109.8	105.6	83.2	87.0	101.3	84.9
December	63.6	80.4	71.8	71.5	74.5	96.2	90.9	99.0	86.0	80.3	109.0	107.0	82.9	86.3	101.0	82.8
1986																
January	63.1	79.5	70.7	71.6	72.1	100.4	90.6	99.1	85.9	79.7	107.9	104.0	81.9	86.2	100.5	83.0
February	61.8	81.8	69.4	70.4	70.6	102.6	91.9	97.8	83.0	77.4	104.2	93.4	79.3	85.5	100.2	79.3
March	62.4	75.9	69.2	69.8	68.7	107.6	92.0	97.6	81.1	75.6	100.7	91.6	77.5	85.7	99.9	74.3

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984			1985		
				Jun	Sep	Decr	Marr	Junr	Sep
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 330	2 322	2 359	2 457	2 442	2 598
On nonbanks	557	634	665	679	676	694	706	706	743
On banks	1 372	1 512	1 588	1 651	1 646	1 665	1 751	1 723	1 855
In dollars	1 504	1 694	1 797	1 850	1 857	1 894	1 944	1 908	1 978
In other currencies	425	452	456	480	465	465	513	534	620
Domestic currencies, on nonresidents	365	398	398	406	393	397	402	417	443
On nonbanks	128	132	136	140	138	137	140	144	157
On banks	237	266	262	266	255	260	262	273	286
In dollars	188	211	217	218	208	210	201	204	197
In other currencies	177	187	181	188	185	187	201	213	246
Total	2 294	2 544	2 651	2 736	2 715	2 756	2 859	2 859	3 041
On nonbanks	685	766	801	819	814	831	846	863	900
On banks	1 609	1 778	850	1 917	1 901	1 925	2 013	1 996	2 141
In dollars	1 692	1 905	2 014	2 068	2 065	2 104	2 145	2 112	2 175
In other currencies	602	639	637	668	650	652	714	747	866
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 168	2 278	2 360	2 349	2 386	2 477	2 462	2 621
To nonbanks	372	432	479	503	492	497	508	509	529
To official monetary institutions	112	91	88	88	94	96	96	106	109
To other banks	1 470	1 645	1 711	1 769	1 763	1 793	1 873	1 847	1 983
In dollars	1 539	1 741	1 846	1 905	1 912	1 950	1 998	1 960	2 026
In other currencies	415	427	432	455	437	436	479	502	595
Domestic currencies, to nonresidents	263	250	258	277	274	277	269	306	336
To nonbanks	74	70	71	71	72	77	78	85	98
To banks	189	180	187	206	202	200	211	221	238
In dollars	126	116	133	140	140	143	143	150	154
In other currencies	137	134	125	137	134	134	146	156	182
Total	2 217	2 418	2 536	2 637	2 623	2 663	2 766	2 768	2 957
To nonbanks	446	502	550	574	564	574	586	594	627
To banks and official institutions	1 771	1 916	1 986	2 063	2 059	2 089	2 180	2 174	2 330
In dollars	1 665	1 857	1 979	2 045	2 052	2 093	2 141	2 110	2 180
In other currencies	552	561	557	592	571	570	625	658	777
Net market size	1 155	1 285	1 377	1 417	1 407	1 425	1 447	1 477	1 556

International bond issues and bank credits

millions of dollars

	1983	1984	1985	1986			Jan-Mar	
				Jan	Feb	Mar	1986	1985
By country of borrower								
Industrial countries	102 652	177 077	226 711	17 020	18 480	22 316	57 817	44 460
Australia	5 737	5 816	14 407	3 012	1 672	800	5 484	2 089
Austria	1 290	2 254	2 435	291	475	338	1 104	692
Belgium	2 168	1 847	3 269	111	447	1 200	1 758	632
Canada	8 571	13 124	17 184	369	2 497	1 221	4 087	6 501
Denmark	3 941	4 825	3 589	61	238	176	475	819
Finland	1 271	1 713	1 846	199	329	203	730	553
France	8 626	11 298	18 773	644	779	1 571	2 993	3 658
Germany	3 197	2 165	3 452	211	739	595	1 545	391
Greece	1 291	1 551	1 588	—	—	60	60	470
Ireland	1 869	1 377	1 881	132	312	—	444	402
Italy	4 876	6 933	11 033	974	534	528	2 036	3 346
Japan	14 428	17 526	21 269	1 145	1 660	2 908	5 712	5 826
Netherlands	1 213	1 973	2 299	90	560	491	1 141	260
New Zealand	802	3 208	2 707	420	250	423	1 093	374
Norway	1 969	1 324	3 905	178	182	279	639	525
Portugal	1 030	1 796	2 382	568	30	52	650	810
South Africa	1 300	1 422	825	—	—	—	—	202
Spain	4 977	4 931	3 913	49	265	112	425	1 037
Sweden	7 144	11 256	9 890	639	808	2 841	4 288	2 318
United Kingdom	2 726	8 899	25 424	1 495	1 651	2 944	6 090	2 036
United States	20 276	65 054	69 194	6 002	4 742	4 835	15 578	11 061
Other*	3 950	6 785	5 447	431	311	741	1 483	461
Developing countries	38 256	39 725	32 139	1 217	1 427	2 755	5 399	5 485
Latin American countries	15 592	17 464	8 115	30	210	160	400	697
Argentina	1 750	4 212	3 700	17	—	—	17	—
Brazil	4 475	6 649	—	—	—	—	—	—
Chile	1 405	784	1 085	—	—	—	—	—
Colombia	552	589	1 052	—	—	—	—	—
Mexico	5 138	3 918	109	—	—	—	—	—
Venezuela	237	—	48	—	—	—	—	—
Other**	2 035	1 312	2 121	13	210	160	383	697
Asian countries	12 978	15 893	18 410	984	1 038	2 395	4 416	3 292
India	968	945	818	116	133	357	606	267
Indonesia	2 363	1 924	451	300	—	657	957	—
Korea	4 387	6 201	5 898	293	198	629	1 120	1 361
Malaysia	2 197	2 605	2 220	—	32	—	32	718
Philippines	878	925	925	—	—	—	—	—
Thailand	747	1 221	1 497	—	—	500	500	550
Other	1 438	2 072	6 602	276	675	252	1 203	396
Middle Eastern and African countries	9 686	6 388	5 614	203	180	200	583	1 496
Algeria	1 993	821	1 450	—	107	—	107	600
Nigeria	2 343	985	—	—	—	—	—	—
Turkey	1 106	741	1 203	138	45	100	283	51
Other	4 244	3 821	2 960	65	27	100	193	846
Eastern European countries	1 294	3 244	5 236	298	463	250	1 011	1 097
Hungary	741	1 386	1 578	248	63	—	311	269
Soviet Union	93	1 051	1 489	—	300	250	550	206
Other***	460	807	2 169	50	100	—	150	623
International organizations****	16 201	13 287	20 635	2 089	1 519	2 075	5 683	4 684
By type of instrument and currency								
International bond issues	76 329	107 411	167 756	14 061	18 091	19 632	51 785	37 124
Eurobonds	48 501	79 458	136 731	11 179	14 506	15 326	41 011	30 822
U.S. dollar	38 428	63 593	97 782	7 570	10 077	7 791	25 438	24 190
German mark	3 817	4 604	9 491	1 052	1 360	1 490	3 902	1 301
British pound	1 947	3 997	5 766	289	317	2 098	2 703	1 269
Japanese yen	212	1 212	6 539	1 036	1 041	2 069	4 148	1 211
European composite units	2 019	3 032	7 038	464	215	650	1 329	1 135
Other	2 078	3 020	10 114	765	1 496	1 230	3 494	1 717
Foreign bonds	27 828	27 953	31 025	2 882	3 585	4 306	10 773	6 302
U.S. dollar	4 545	5 487	4 655	914	150	900	1 964	1 140
German mark	2 671	2 243	1 741	—	—	—	—	476
British pound	811	1 292	958	—	—	109	109	66
Swiss franc	14 299	12 625	14 954	1 334	2 069	2 335	5 728	3 105
Japanese yen	3 772	4 628	6 379	321	1 259	811	2 391	1 071
Other	1 730	1 677	2 339	313	117	151	581	445
International bank credits	82 074	125 922	116 964	6 563	3 798	7 783	18 125	18 582
Eurocurrency credits	74 222	112 605	110 317	6 199	3 569	7 139	16 908	16 673
Foreign credits	7 852	13 317	6 648	364	230	624	1 217	1 909
Total	158 403	233 333	284 720	20 624	21 890	27 396	69 909	55 708

*Includes multinational organizations.

**Includes unallocated.

***Includes COMECON institutions.

****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985				1986			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Eurodollar											
overnight	9.25	9.50	8.63	8.38	7.88	7.88	12.25	7.88	7.81	7.63	6.88
one month	9.13	9.69	8.38	7.94	7.88	8.06	8.00	7.94	7.81	7.38	6.81
three months	9.19	9.81	8.63	8.06	7.94	8.06	7.88	7.94	7.75	7.31	6.75
six months	9.50	10.06	9.13	8.31	8.00	8.06	7.88	8.00	7.69	7.25	6.75
twelve months	9.63	10.38	9.81	8.56	8.25	8.17	7.94	8.13	7.75	7.25	6.81
Euro-Canadian dollar											
one month	10.00	9.13	9.68	8.38	8.31	8.88	9.00	10.69	12.88	10.75	8.38
three months	10.00	9.50	10.81	8.69	8.38	8.88	9.00	10.69	11.69	10.44	8.69
six months	10.13	9.75	10.06	9.06	8.56	8.94	9.00	10.44	10.94	9.88	8.69
twelve months	10.25	10.00	10.44	9.38	8.94	9.06	9.00	10.31	10.31	9.75	8.69
Euro-French franc											
one month	23.00	12.13	10.69	9.63	9.19	9.63	12.50	15.00	14.50	15.00	7.75
three months	24.00	12.19	10.69	10.50	9.63	9.75	13.00	16.25	14.00	12.25	7.50
six months	22.00	12.31	11.00	10.88	10.63	10.25	13.13	13.75	12.50	11.00	7.50
twelve months	19.75	12.63	11.38	11.25	10.88	10.25	12.25	12.75	10.75	10.00	7.38
Euromark											
one month	5.88	5.25	5.50	4.44	4.69	4.69	4.75	4.56	4.56	4.44	4.56
three months	5.88	5.88	5.50	4.50	4.63	4.69	4.75	4.57	4.44	4.44	4.50
six months	5.94	6.13	5.56	4.63	4.94	4.75	4.75	4.57	4.38	4.44	4.44
twelve months	6.00	6.38	5.56	4.75	5.06	4.88	4.81	4.63	4.38	4.44	4.44
Euro-Dutch guilder											
one month	5.13	5.81	5.69	5.69	6.13	5.75	5.75	5.69	5.81	5.50	5.75
three months	5.19	6.00	5.75	5.69	6.19	5.75	5.75	5.69	5.81	5.44	5.50
six months	5.38	6.25	5.81	5.69	6.19	5.88	5.81	5.69	5.75	5.44	5.38
twelve months	5.63	6.38	5.94	5.69	6.25	5.94	5.88	5.75	5.75	5.44	5.31
Euro-Swiss franc											
one month	2.81	3.38	4.44	4.19	3.88	4.00	3.88	4.06	3.75	4.00	4.12
three months	3.25	3.75	4.56	4.50	4.44	4.00	4.00	4.06	3.75	3.94	4.12
six months	3.44	3.94	4.63	4.63	4.50	4.00	4.00	4.06	3.75	3.81	4.06
twelve months	3.44	3.94	4.69	4.63	4.56	4.06	4.06	4.13	3.81	3.75	3.94
Eurosterling											
one month	10.56	9.13	9.50	11.63	11.56	11.63	11.69	12.75	12.56	11.75	10.81
three months	10.44	9.31	9.88	11.50	11.50	11.56	11.81	12.81	12.31	11.31	10.38
six months	10.31	9.50	10.00	11.19	11.44	11.31	11.81	12.75	12.00	10.56	9.81
twelve months	10.31	9.81	10.19	11.00	11.19	11.13	11.69	12.63	11.69	10.25	9.50
Euroyen											
one month	6.75	6.25	6.19	6.75	7.50	8.19	7.13	6.38	6.50	5.56	4.94
three months	6.75	6.31	6.19	6.38	7.75	7.69	6.56	6.13	5.88	5.25	4.81
six months	7.10	6.38	6.13	6.38	7.38	7.19	6.50	6.06	6.56	5.13	4.69
twelve months	6.81	6.44	6.13	6.38	7.06	6.94	6.38	6.00	6.56	5.06	4.69
European currency unit											
one month	12.44	8.21	9.25	8.31	8.31	8.31	9.63	10.63	9.94	10.06	7.94
three months	12.31	9.19	9.38	8.50	8.50	8.50	9.63	10.13	9.88	9.50	7.56
six months	12.00	9.44	9.50	8.75	8.81	8.69	9.63	9.75	9.44	8.50	7.38
twelve months	11.19	9.63	9.63	8.88	8.75	8.75	9.63	9.13	9.06	8.06	7.19

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1983	1984	1985	1986						
	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States companies										
Eurodollar	11.59	11.25	10.37	10.53	10.37	10.04	9.68	9.60	9.27	8.78
Euromark	7.34	6.95	6.67	6.74	7.13	6.95	6.73	6.73	6.61	6.67
Swiss franc	5.83	5.73	5.60	5.62	5.66	5.59	5.49	5.47	5.52	5.63
European governments										
Eurodollar	12.65	12.04	11.11	11.18	11.04	10.77	10.52	10.59	10.36	9.98
Euromark	8.12	7.39	6.89	6.96	7.23	7.14	7.03	6.95	6.81	6.77
Swiss franc	5.63	5.24	5.09	5.00	5.02	4.99	4.91	4.82	4.71	4.71
European currency unit	11.77	10.64	10.01	10.14	10.42	10.20	10.23	10.26	10.44	10.35

Central bank discount rates

at or near end of month

	1982	1983	1984	1985		1986			Current	
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	May 1 1986	effective since
United States	8.50	8.50	8.00	7.50	7.50	7.50	7.50	7.00	6.50	Apr 21, 86
Canada	10.05	9.96	10.09	9.10	9.49	10.80	11.80	10.44	8.97	May 1, 86
Austria	4.75	3.75	4.50	4.00	4.00	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	11.50	10.00	11.00	8.75	9.75	9.75	9.75	9.75	8.75	Apr 10, 86
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	8.50	8.50	8.00	8.00	Mar 1, 86
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.00	4.00	4.00	4.00	3.50	3.50	Mar 7, 86
Ireland	14.00	12.25	14.00	10.25	10.25	11.75	13.75	13.75	12.50	Mar 8, 86
Italy	18.00	17.00	16.50	15.00	15.00	15.00	15.00	14.00	13.00	Apr 25, 86
Netherlands	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	4.50	Mar 7, 86
Norway	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 8, 83
Portugal	19.00	25.00	25.00	19.00	19.00	19.00	19.00	19.00	17.50	Apr 10, 86
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	10.50	10.50	9.50	9.50	8.50	8.00	Apr 18, 86
Switzerland	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.38	11.31	11.31	12.31	12.31	11.31	10.31	Apr 21, 86
Japan	5.50	5.00	5.00	5.00	5.00	4.50	4.50	4.00	3.50	Apr 21, 86
New Zealand	13.00	7.50	13.50	20.90	19.80	n.a.	n.a.	n.a.	n.a.	Dec, 85
South Africa	15.45	18.50	21.75	13.50	13.50	12.50	12.50	12.50	12.50	Jan 17, 86
Argentina*	10.56	15.10	18.19	5.00	5.00	5.00	5.00	6.69	5.00	Oct, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.30	8.05	12.11	10.81	11.50	11.62	n.a.	n.a.	n.a.	Jan, 86
Singapore	7.00	7.00	6.75	5.00	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	12.50	13.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	Mar, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	8.95	9.47	8.38	7.90	7.92	7.99	8.05	8.27	8.14	7.85	7.48
Canada	10.63	8.78	10.50	8.97	8.53	8.58	8.81	9.23	9.94	11.47	11.10
Austria	6.00	5.75	7.63	5.38	4.88	5.50	6.75	7.25	6.13	6.25	5.00
Belgium	9.29	7.39	9.12	8.00	7.91	8.26	8.02	6.69	8.36	8.57	7.74
Finland	11.50	16.70	15.07	13.43	13.11	12.78	12.37	11.98	11.64	11.40	11.21
France	12.88	12.27	10.95	9.68	9.57	9.34	8.98	9.01	8.83	8.77	8.52
Germany	6.15	5.61	5.62	4.77	4.59	4.54	4.61	4.64	4.58	4.59	4.76
Ireland	14.54	12.19	14.50	10.75	9.50	9.38	8.50	9.62	12.00	14.38	14.75
Italy	19.00	17.88	17.25	14.53	14.38	14.35	14.59	14.75	15.15	16.57	17.15
Netherlands	5.31	5.84	5.60	5.92	5.74	5.87	5.78	5.75	5.75	6.01	5.72
Norway	11.00	12.30	12.50	12.70	11.80	12.25	12.50	12.40	13.00	13.20	13.20
Spain	20.18	16.77	12.11	12.99	10.86	8.99	10.49	9.78	8.44	10.49	11.20
Sweden	9.31	11.52	11.88	15.00	15.00	14.00	12.00	11.83	13.00	11.09	12.50
Switzerland	1.25	1.88	1.50	2.50	2.00	1.25	0.75	2.00	2.00	1.75	2.25
United Kingdom	6.70	7.78	6.31	11.25	9.89	9.66	14.72	9.72	11.59	11.16	12.09
Australia	10.87	4.55	10.98	15.29	15.83	15.84	16.87	18.37	18.32	18.16	16.74
Japan	6.92	6.44	6.41	6.17	6.41	6.54	7.29	8.02	6.84	5.78	5.54
South Africa	14.15	16.06	21.13	16.25	15.20	14.90	13.13	12.50	12.00	11.25	11.75
Argentina*	12.77	14.65	17.75	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50
Brazil	150.42	184.69	272.02	194.90	230.30	237.20	229.96	352.23	541.33	376.24	n.a.
Hong Kong	9.13	13.90	6.80	2.74	4.71	4.38	5.43	6.10	5.93	6.63	6.48
Korea	13.84	11.40	10.00	9.70	9.40	9.60	9.00	8.80	8.50	9.40	9.70
Philippines	16.12	31.18	15.22	18.39	10.25	16.71	15.41	15.03	11.72	21.08	17.83
Singapore	11.45	7.05	6.01	4.37	5.34	5.79	4.49	4.53	4.84	5.75	4.85
Taiwan	9.94	7.65	8.07	8.33	6.81	5.30	5.06	4.50	4.25	5.25	3.54

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	8.15	9.28	7.99	7.38	7.13	7.44	7.40	7.25	7.15	7.22	6.26
Canada	9.80	9.71	9.84	8.95	8.75	8.53	8.85	9.24	10.55	11.55	10.19
Belgium	12.42	11.00	10.90	9.63	9.28	8.92	8.72	9.89	9.89	9.89	9.89
Ireland	15.25	12.01	15.10	10.43	9.89	10.14	10.41	11.15	14.32	15.02	12.08
Italy	19.11	16.95	14.69	13.99	13.37	12.90	12.76	12.71	13.33	13.14	12.75
Netherlands	5.63	5.63	5.88	5.75	5.75	6.19	5.88	5.69	5.72	6.13	5.56
Spain	15.28	14.46	12.00	12.45	10.66	9.44	9.25	9.25	9.25	9.25	9.25
Sweden	12.90	11.75	11.83	15.00	15.33	14.37	13.28	12.49	11.70	11.14	10.63
United Kingdom	9.96	9.04	9.33	11.31	11.38	11.45	11.33	11.49	12.47	12.21	11.04
Australia	9.39	8.54	12.27	16.17	16.16	16.36	18.45	19.40	18.46	17.03	14.88
Japan	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	3.90
New Zealand	11.25	7.80	13.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	14.62	18.43	21.94	15.72	15.22	13.87	12.90	12.99	12.02	11.96	11.97
Brazil	115.40	179.15	273.03	197.15	233.20	241.20	245.39	379.77	n.a.	n.a.	n.a.
Mexico	57.44	53.78	48.67	70.56	n.a.	66.24	70.70	72.98	74.89	77.75	76.78
Philippines	14.54	15.99	47.14	21.60	18.01	17.04	16.63	16.45	16.68	23.43	23.66
Singapore	2.74	2.59	2.91	2.79	2.97	2.92	2.89	2.94	2.96	2.80	2.64

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	8.94	9.89	8.34	7.91	7.89	8.07	8.01	8.01	7.91	7.80	7.34
Canada	9.95	9.87	10.10	9.15	8.95	8.70	9.25	9.45	11.25	12.05	10.80
Belgium	12.52	11.15	10.85	9.73	9.48	8.97	8.72	9.89	9.89	9.89	8.52
France	12.75	12.19	10.69	9.75	9.44	9.25	8.87	9.12	8.93	8.57	8.37
Germany	6.20	6.30	5.75	4.65	4.65	4.95	4.80	4.80	4.60	4.35	4.65
Ireland	15.75	12.19	15.13	10.38	10.25	10.25	10.50	12.00	15.25	16.25	14.63
Italy	19.00	17.88	16.88	14.38	14.38	15.00	14.63	15.13	16.00	16.75	15.00
Netherlands	5.25	6.00	5.75	5.75	5.81	6.25	5.94	5.75	5.81	5.88	5.50
Portugal	15.05	24.11	24.57	22.63	22.69	22.69	22.49	20.71	18.28	18.55	n.a.
Spain	16.97	18.99	12.16	13.03	11.17	10.16	10.13	10.13	10.37	10.44	11.13
Switzerland	3.88	3.88	5.00	4.63	4.69	4.69	4.13	4.75	4.43	4.13	4.06
United Kingdom	10.50	9.31	9.88	11.56	11.50	11.50	11.50	12.75	12.75	12.25	11.06
Australia	9.85	9.05	12.90	16.70	16.50	16.35	18.65	19.75	18.75	18.00	16.20
Japan	6.96	6.45	6.33	6.30	6.33	7.11	7.55	7.03	6.12	5.92	5.16
New Zealand	16.75	12.10	15.25	26.75	27.20	24.95	20.50	n.a.	n.a.	n.a.	n.a.
South Africa	15.26	19.12	22.78	16.50	15.25	14.03	13.20	n.a.	12.55	12.40	12.35
Chile	55.90	20.68	20.68	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	9.25	14.88	8.25	6.00	5.63	6.00	6.50	6.50	6.63	6.81	7.25
Indonesia	18.50	19.50	19.00	15.50	15.00	14.50	14.50	15.00	14.50	14.50	20.25
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.50	9.80	10.30	8.50	7.50	7.25	8.25	8.20	8.30	8.70	8.75
Philippines	15.96	15.61	33.21	20.48	16.56	25.11	22.45	14.61	23.05	26.05	26.45
Singapore	8.69	8.44	7.00	4.56	6.38	5.81	5.44	5.88	5.53	5.31	5.00
Taiwan	n.a.	8.07	7.85	7.33	5.76	5.13	4.51	4.10	3.17	3.10	3.37
Thailand	12.25	16.00	12.00	12.00	12.00	13.50	15.00	15.50	11.50	11.25	10.00

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985								1986			
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar				
United States	8.25	9.70	8.35	7.88	7.80	7.80	7.88	7.75	7.75	7.60	7.16				
Canada	9.85	9.82	10.05	9.10	8.90	8.65	9.20	9.40	11.20	12.00	10.75				
Austria	6.25	6.50	7.50	5.75	5.25	5.63	6.13	6.50	6.25	6.38	5.50				
Belgium	12.25	11.25	10.63	9.31	9.13	8.75	8.50	9.63	9.88	9.75	9.63				
Denmark	9.00	6.00	6.00	5.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00				
Finland	4.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.25	4.25	3.75				
France	8.24	7.66	7.04	6.49	6.44	6.27	6.07	6.12	6.03	6.02	5.88				
Germany	6.00	5.90	5.25	4.25	4.25	4.55	4.45	4.40	4.25	4.25	4.15				
Ireland	15.25	11.75	14.63	10.00	9.50	9.88	10.25	11.87	15.25	16.00	14.50				
Italy	13.25	13.25	11.64	10.86	n.a.	n.a.	n.a.	11.85	11.75	11.75	11.75				
Netherlands	5.38	6.13	5.69	5.69	5.69	6.19	5.81	5.81	5.69	5.75	5.38				
Norway	13.50	12.75	12.75	12.00	12.00	12.00	12.00	12.00	12.25	12.25	12.25				
Portugal	15.00	21.50	28.00	24.00	24.00	24.00	20.00	20.00	20.00	20.00	20.00				
Spain	12.53	12.62	11.64	10.49	10.42	10.20	9.30	9.64	9.61	9.59	n.a.				
Sweden	12.15	11.70	11.45	14.61	13.90	14.08	12.71	12.18	12.45	11.45	11.00				
Switzerland	3.00	3.50	4.50	4.38	4.25	4.50	3.75	4.50	4.25	3.94	3.81				
United Kingdom	10.31	9.31	9.88	11.31	11.28	11.44	11.38	11.75	12.75	12.13	11.06				
Australia	10.20	10.40	12.75	15.89	16.76	16.20	17.76	18.80	18.63	17.95	16.13				
Japan	7.00	6.40	6.38	6.41	6.43	7.32	7.93	7.05	6.24	6.10	5.32				
New Zealand	16.50	11.50	15.25	25.00	23.00	24.50	21.25	n.a.	n.a.	n.a.	n.a.				
South Africa	15.25	20.13	22.88	17.25	16.00	15.00	13.20	n.a.	12.70	12.65	12.60				
Argentina*	8.50	14.50	31.23	7.00	5.30	4.80	5.25	5.40	5.40	4.75	4.50				
Brazil	21.00	23.00	27.00	23.00	18.00	17.00	16.00	18.00	18.00	18.50	21.00				
Chile	47.09	20.57	20.68	18.49	19.35	20.44	21.05	23.60	22.27	23.60	16.30				
Hong Kong	9.25	14.88	8.25	6.00	5.63	6.00	6.50	6.50	6.83	6.81	7.25				
Korea	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00				
Malaysia	8.40	7.75	9.58	8.17	8.17	7.00	7.00	7.00	7.00	7.00	7.00				
Mexico	52.54	57.15	47.45	65.20	65.80	66.80	69.60	72.90	73.60	75.75	79.55				
Philippines	14.10	14.96	31.01	17.35	14.26	12.45	12.42	12.34	11.66	13.24	14.17				
Singapore	8.25	7.44	6.13	4.51	6.38	5.81	5.01	5.26	5.01	5.01	4.94				
Taiwan	7.50	7.00	6.50	6.00	5.75	5.75	5.25	5.25	5.25	5.75	4.75				
Thailand	10.00	10.00	13.00	10.00	10.50	10.50	10.50	10.50	10.50	11.00	10.50				
Venezuela	15.50	12.00	12.50	9.50	9.00	8.00	8.00	8.00	8.00	8.00	8.00				

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985								1986			
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar				
United States	10.61	12.00	11.61	10.63	10.67	10.62	10.06	9.49	9.45	8.31	7.50				
Canada	11.69	12.02	11.66	10.79	10.96	10.72	10.34	10.04	10.49	9.96	9.54				
Austria	8.81	8.02	8.04	7.58	7.34	7.38	7.55	7.61	7.62	7.68	7.63				
Belgium	12.66	11.89	11.56	10.59	10.42	9.65	9.43	9.60	9.62	9.38	8.41				
Denmark	20.14	12.96	14.60	10.72	11.23	10.79	10.50	9.67	10.12	9.27	9.26				
Finland	10.64	11.16	10.73	10.42	10.35	10.36	10.50	10.58	9.74	9.96	8.77				
France	15.40	13.96	12.70	11.96	11.97	11.59	11.22	11.33	10.79	10.00	9.19				
Germany	7.90	8.38	7.17	6.52	6.55	6.91	6.79	6.57	6.64	6.32	6.21				
Ireland	14.54	14.25	14.90	11.74	11.92	11.84	12.10	11.84	11.92	10.68	9.35				
Italy	19.70	17.69	14.52	14.04	13.74	13.73	13.70	13.66	13.43	13.80	13.37				
Netherlands	8.16	8.58	7.72	6.92	6.87	7.03	7.01	6.96	6.81	6.84	6.44				
Norway	13.32	12.50	12.00	12.70	12.70	12.70	12.70	13.10	13.10	13.20	12.80				
Portugal	16.63	22.11	22.23	20.14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Spain	15.46	17.25	13.93	14.37	13.92	12.58	12.12	12.30	12.35	12.36	12.22				
Sweden	13.01	12.30	12.04	13.22	13.54	13.40	13.10	12.11	12.23	11.60	10.81				
Switzerland	4.23	4.53	4.60	4.69	4.66	4.57	4.53	4.42	4.42	4.31	4.22				
United Kingdom	10.62	9.94	10.25	10.22	10.15	10.16	10.17	10.35	10.56	9.83	8.75				
Australia	13.00	13.65	13.50	13.95	13.80	14.55	15.05	14.85	14.10	13.70	12.60				
Japan	7.96	7.45	6.36	6.46	6.36	6.55	6.84	6.10	6.10	5.30	4.80				
New Zealand	12.84	10.50	16.90	17.80	18.35	18.10	17.00	n.a.	n.a.	n.a.	n.a.				
South Africa	11.31	13.64	18.55	16.20	16.65	17.50	17.50	n.a.	17.57	17.30	17.65				
Philippines	13.64	14.47	18.54	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Venezuela	15.00	13.50	14.00	12.00	12.00	12.00	12.00	12.00	12.25	12.00	12.00				

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985								1986			
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar				
United States	11.50	11.00	10.75	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.00				
Canada	12.50	11.00	11.25	10.25	10.25	10.00	10.00	10.00	11.50	13.00	12.00				
Austria	11.75	9.25	9.25	9.25	9.25	9.00	9.00	9.00	9.00	9.25	9.25				
Belgium	15.50	13.75	14.00	12.50	12.00	11.50	11.00	11.50	12.25	12.25	11.50				
Denmark	14.00	10.00	10.50	9.50	8.50	8.50	8.50	8.50	8.50	8.50	7.50				
Finland	8.95	10.18	10.68	10.43	10.42	10.43	10.40	10.37	9.90	9.90	n.a.				
France	12.25	12.25	12.00	10.85	10.85	10.85	10.60	10.60	10.60	10.60	10.60				
Germany	8.75	7.75	7.75	7.25	7.25	7.25	7.25	7.25	7.25	7.25	6.75				
Ireland	16.50	13.75	15.75	13.50	12.50	12.50	12.50	12.50	14.50	17.50	17.50				
Italy	20.75	18.75	18.00	17.00	16.00	16.00	15.88	15.88	15.88	16.00	n.a.				
Netherlands	6.25	7.00	6.25	6.25	6.25	6.38	6.50	6.25	6.25	6.38	6.00				
Norway	14.50	13.50	13.00	13.10	12.70	12.90	12.80	12.40	13.50	14.00	13.75				
Portugal	23.50	30.00	29.00	26.50	26.50	26.50	22.50	22.50	22.50	22.50	22.50				
Spain	16.90	17.31	15.84	15.49	15.36	14.98	14.80	14.75	14.66	14.58	14.58				
Sweden	15.00	13.50	14.50	15.25	15.25	14.75	14.75	15.05	14.00	14.00	13.00				
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00				
United Kingdom	10.00	9.00	9.50	11.50	11.50	11.50	11.50	11.50	12.50	12.50	11.50				
Australia	15.00	12.75	14.00	17.75	18.50	18.50	19.50	21.00	20.60	20.50	19.75				
Japan	6.28	5.89	5.70	5.69	5.69	5.69	5.70	5.71	5.70	5.66	5.38				
New Zealand	13.00	11.00	14.00	22.00	23.00	22.50	21.50	n.a.	n.a.	n.a.	n.a.				
South Africa	18.00	20.00	24.00	21.00	19.50	17.50	16.50	16.50	15.50	15.50	15.50				
Argentina*	9.00	15.50	32.05	9.00	5.75	5.60	7.25	7.30	7.00	6.40	5.25				
Brazil	23.81	24.00	31.00	24.50	19.00	18.00	17.00	19.00	19.00	19.50	21.00				
Chile	64.11	30.90	60.82	n.a.	35.53	32.36	31.88	33.34	33.46	35.77	n.a.				
Hong Kong	10.50	13.50	11.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	8.00				
Indonesia	22.00	19.75	23.50	20.25	19.50	19.00	19.00	18.75	18.50	20.00	20.00				
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00				
Malaysia	12.50	11.00	12.00	11.00	11.00	10.50	10.50	10.50	10.50	10.50	10.50				
Mexico	46.12	56.44	47.54	59.06	60.98	62.29	63.39	65.66	68.55	70.30	71.79				
Philippines	18.00	18.00	44.00	23.00	n.a.	n.a.	15.50	n.a.	n.a.	n.a.	n.a.				
Singapore	9.33	8.98	9.40	7.28	7.20	7.23	7.20	7.20	7.20	7.20	7.18				
Taiwan	10.75	10.25	10.00	10.00	9.75	9.75	9.50	9.50	9.50	9.50	9.00				
Thailand	16.00	16.00	16.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	14.00				
Venezuela	17.00	16.00	16.00	13.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00				

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985								1986			
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar				
United States	11.75	12.63	12.25	11.38	11.50	11.25	10.75	10.15	10.38	9.00	8.63				
Canada	12.74	12.89	12.42	11.49	11.56	11.26	10.98	10.74	12.08	12.95	12.46				
France	15.86	14.35	12.94	12.17	12.36	11.99	11.68	11.76	11.38	10.81	10.13				
Germany	8.20	8.30	7.20	6.90	6.80	6.90	7.00	6.90	6.80	6.80	6.70				
Netherlands	7.80	8.51	7.51	7.28	n.a.	n.a.	n.a.	n.a.	n.a.	6.86	6.53				
Norway	14.13	13.25	12.75	13.50	13.50	13.50	13.50	14.00	14.00	14.00	14.00				
Spain	17.10	20.07	18.32	16.37	16.47	15.81	15.80	14.92	14.87	14.82	14.40				
Sweden	13.37	12.21	12.33	13.25	13.50	14.00	13.50	13.25	13.21	12.73	11.99				
Switzerland	5.80	4.92	5.09	5.05	5.02	4.99	4.99	4.93	4.78	4.71	4.64				
United Kingdom	12.34	11.57	11.64	11.22	11.17	11.14	11.18	11.47	11.59	10.88	9.96				
Japan	7.55	7.09	6.21	6.46	6.36	6.26	7.56	6.90	6.70	5.96	5.40				
Korea	16.00	14.20	15.00	13.90	13.80	13.70	13.60	13.60	13.00	12.60	12.40				
Venezuela	18.00	18.00	18.00	17.00	17.00	17.00	17.00	17.00	17.50	17.00	17.00				

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Germany's growth predicament

A rare exuberance swept seers of Germany's economy early this year. Bolstered by windfalls from lower interest rates, plunging oil prices, and additional terms of trade gains from a strengthening currency, the economy seemed set to enjoy a consumer boom and its best overall performance since the 1960s. The consensus view looked for a real GNP increase of 3½% to 4% for 1986 and steady growth thereafter. Late-ly, however, sobriety is back: news of an actual sharp decline in first-quarter activity (see Chart 1) has coupled with export-threatening currency appreciation to cloud the economic outlook. Complacency seems out of order. Calls for more vigorous German performance no longer ring out solely from the far side of the Atlantic but also from within Germany itself. Recognition is growing that faster economic growth would be in the country's own best interest on all key issues: job opportunities, living standards, inflation stability, and sustainable external balance.

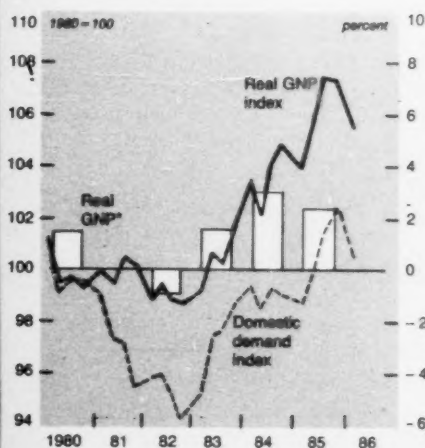
Flagging external demand

Germany's economy relies on exports for 35% of GNP. Between

1980 and 1985, Germany depended almost wholly on increased net exports for what little growth it managed in real GNP (see Table 1). Although domestic demand recovered from 1983 onward, 1986 is the first year since 1979 that it is contributing healthily to GNP growth; right up until the final quarter of 1985 Germany was feeding on overseas demand — an unsustainable situation. Germany's exporters and, indirectly, its manufacturing sector generally had become disproportionately reliant on the U.S. market (see Table 2). Exports to the United States more than doubled from 1.4% of Germany's GNP in 1980 to 3.0% in 1985. And, vis-à-vis the United States, Germany's current account balance improved over the same period by about \$40 billion, or 2½% of 1980 GNP.

The party is over. As the U.S. market becomes more difficult and U.S. competition intensifies globally, Germany's exporters will find the going rougher by the day. The demand outlook in Western Europe — taken as a whole, Germany's largest market by far — depends much on what happens in Germany itself. Besides, a number of European countries are seizing the opportunity of the oil price collapse to cut budget deficits

Chart 1
Germany's real GNP



* Annual average, percent change.

Table 1

Germany's sources of growth
contributions to real GNP-in percent

	Calendar year average				Fourth quarter, from year earlier		
	1981-85	1985	1986	1987	1985	1986	1987
Domestic demand	0.1	1.4	3.8	4.8	2.9	4.7	2.9
Change in net exports	1.1	1.0	-1.2	-1.3	-0.5	-1.0	-1.4
Real GNP*	1.2	2.4	2.6	3.5	2.4	3.7	1.5

*Percent change.

rather than stimulate growth in demand and imports. Elsewhere, oil-producing countries are slashing imports as their revenues dwindle, and the import capacity of many other LDCs remains limited by financial difficulty. Germany's markets to the East are in poor shape: the Soviet Union may have to reduce its industrial imports from Western countries very substantially as a result of the oil price slide and chronic agricultural troubles; most other Soviet-bloc countries are grappling with debt problems. German contractors also are affected adversely by reduced demand for nuclear power installations in both Eastern and Western Europe following the Chernobyl accident.

These dim export prospects already are taking toll of German manufacturers' order books. In volume terms, their new export orders were down 3¼% during the first five months of 1986 from the same year-earlier period (see Chart 2). Exporter confidence has been eroding steadily since the peak last fall, most markedly for price-sensitive intermediate goods but also investment goods. Only consumer goods, buoyed by auto sales, have continued to enjoy strengthening orders from abroad.

Export deliveries in the first five months of the year still ran ahead of year-earlier figures but, for 1986 as a whole, the overall volume of German exports may grow no more than 2%, barely a quarter the pace

in either 1984 or 1985. With signs evident of weakness in U.S. activity, German export markets may grow at about the same low rate in 1987. And with the effects of mark appreciation continuing to work their way through, and quite possibly with further appreciation to come, Germany's exports in 1987 may do well to exceed noticeably the 1986 level. Indeed, the risk is of an even weaker result. For Germany, therefore, export-led growth is a thing of the past.

Domestic demand: enduring strength?

Confidence ran high, at least until the first-quarter setback, that now would be the time for Germany to wean itself smoothly from past reliance on external demand in favor of internal sources of growth. Following years of restraint, budgetary policy was planned to be broadly neutral for 1986. Taxes were reduced by enough to offset both fiscal drag and cutbacks in the growth of outlays for social transfers (see Table 3). Tumbling oil prices and a strong mark made possible large increases in consumer demand, and also in real wages without hurting profits. With a high-flying stock market and good business profitability, investment looked set to soar. The prospects looked especially promising in manufacturing, where output growth has been relatively fast and capacity utilization rising (see Charts 3 and 4).

Notwithstanding these positive fundamentals, first-quarter real GNP fell 6.6% at a seasonally adjusted annual rate. Although consumer spending rose 3.6% — more or less in line with expectations — construction investment (12% of real GNP in 1985) tumbled 33%, plant and equipment investment fell 9%, and the contribution of inventories

Table 2

Germany's export orientation
percent of total

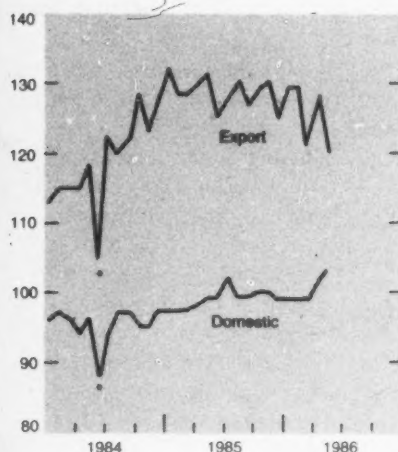
	Average annual growth*		
	1980	1985	1980-85
Western Europe	69.4	67.4	6.3
United States	6.1	10.3	20.9
Other industrial countries	3.7	4.4	12.6
OPEC	6.5	4.7	2.0
Other LDCs	8.3	7.7	7.5
Communist countries**	7.5	5.2	7.5
Total**	100	100	11.9

*In mark terms.

**Excluding German Democratic Republic.

Chart 2

New orders to German manufacturing
1980 = 100, in real terms



* Affected by strikes.

was heavily negative. Harsh weather and changed vacation patterns undoubtedly had much to do with the setback. Even so, activity was weak. Tight monetary conditions may have been largely responsible: nominal interest rates declined little during the quarter, whereas consumer and — especially — wholesale prices were falling steeply. Since a falling price level was not wholly unexpected, given exchange rate and oil price developments, the real short-term interest costs incurred by firms were enormously high, perhaps exceeding 10% at times.

During the second quarter, Germany's real interest rates still were high, but less punitive than before. Investment almost certainly rebounded but, for the year as a whole, now may fall short of the 6% or so real growth once expected (within this total, spending on plant and equipment will rise much faster than on construction). Inventory accumulation also looks likely to disappoint initial hopes. Meanwhile, government consumption may rise by only 2¼%. However, private consumption seems on course for a year-on-year increase of around 4¾%, allowing domestic demand in total to add 3.8% to real GNP.

Consequently, imports should rise fully 6½% this year. Not only are the more robust elements of domestic demand relatively import-intensive, but also the price of imports is sharply lower, thanks to the mark's appreciation both against the dollar and in effective terms (see Chart 5). With export growth projected at a meager 2%, the upshot would be

that the drop in net exports will subtract 1.2% from Germany's real GNP.

Taken together, domestic and foreign contributions lead to a revised prediction for German real GNP growth of 2.6% for 1986 (calendar-year basis). This is considerably less than the consensus predicted only recently, mainly because the positive impact of the oil price decline is taking hold one or two quarters later than anticipated. Indeed, the impact in the first quarter of 1986 — via high real interest rates and import cutbacks by oil producers — was negative. However, while Germany's projected economic growth for 1986 is modest when measured year-on-year, output by the fourth quarter of 1986 should be about 3¼% higher than a year earlier — a moderately satisfactory near-term result in light of the country's growth potential of around 2½% a year. It should be enough to bring some small decline in unemployment over the next twelve months.

Weak medium-term prospects

Any quantification of Germany's growth prospects for 1987 must include a considerable statistical "carryover" from the peculiar output profile visualized for 1986: even were output to stagnate altogether during the course of 1987, there still would be year-on-year growth of 2½% between 1986 and 1987. More likely, growth during 1987 may run at a modest 1½%, which would yield a year-on-year gain of 3½% — a misleading characterization of what actually would be lackluster performance. For 1986 and 1987, taken together, growth would barely exceed the economy's increase in productive potential.

This prognosis rests on the near-certainty that external influences

Table 3

Germany's tax burden
percent of GNP

	1981	1982	1983	1984	1985	1986
Tax receipts	25.0	24.8	24.8	25.0	25.0	24.7
Social security contributions	17.4	17.8	17.3	17.3	17.4	17.4
Transfers	-19.8	-20.3	-19.8	-19.3	-18.8	-18.5

Chart 3

Capacity utilization in German manufacturing percent

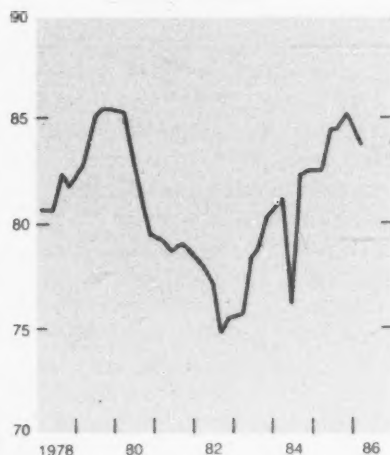
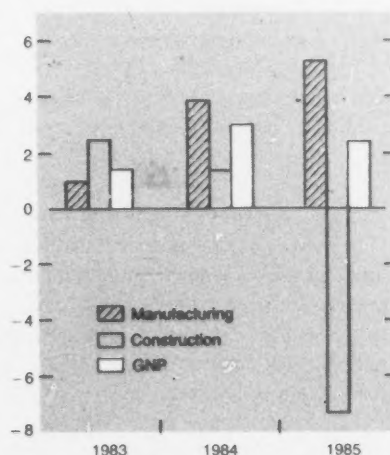


Chart 4

German output growth percent change from previous year



will remain adverse with scant offsetting domestic stimulus forthcoming from present policies. With no repeat possible of the stimulus afforded by this year's oil price decline — in some ways akin to a fiscal stimulus — the German economy faces reversion over the medium term to the subpar growth and rising unemployment that plagued it in the first half of the 1980s.

Naturally, that is not the appraisal of those who claim that Germany's unswerving policies are breeding a spontaneous, self-generating recovery of domestic demand. In principle, following a protracted period of policy-induced retrenchment, such as Germany experienced during the first half of the 1980s, an economy will recover automatically: in the depth of recession, nominal GNP will grow more slowly than money supply, provided the latter is not reined back in line with the fall in inflation; interest rates will be driven down and stimulate demand. But in practice, whatever the principle, self-generating forces for recovery are weak, slow-acting, and uncertain. Besides, if Germany's domestic demand is to continue recovery beyond this year, the economy will develop increased needs for monetary liquidity amid low inflation and ongoing financial innovation and deregulation. It is vital that the Bundesbank takes into account these needs in setting its money growth targets for 1987 and subsequent years.

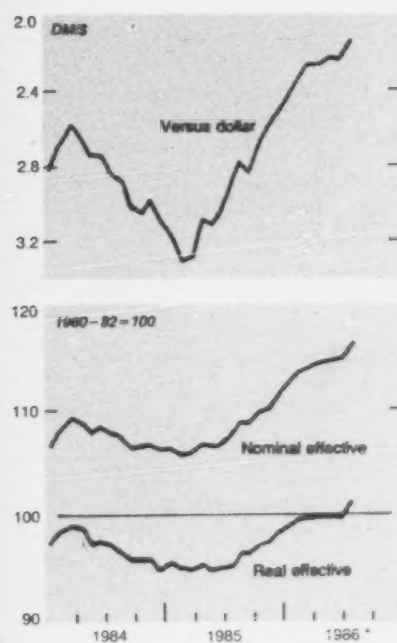
Allegedly, "spontaneous" recovery will enjoy a powerful boost from the confidence built by successful "consolidation" of Germany's budget deficit. In fact, for several years there has been little progress in improving the budgetary position on a structural reckoning, that is, after cyclical adjustment and counting only the real cost of debt service in net terms (treating Bundesbank profit transfers as government inter-

est receipts). Nor was the intensified austerity effort of the last few years necessary: whereas the structural deficit may well have been excessive around the turn of this decade, the problem had been righted by 1982. In fact, the structural position had moved into surplus (see Table 4). Subsequent cuts in the actual budget deficit (from 3.4% of GNP in 1982 to 1.1% in 1985) continued to dampen activity, limit growth of the capital stock (see Table 5), and thereby amplify the recession-induced squeeze on capacity. Because the recession depressed growth in capacity, and thus potential output, the structural budget surplus today — although substantial — is not much greater than in 1982. Nor has austerity materially reduced the burden of taxes and social security contributions, which might have fostered some supply-side dynamism. Meanwhile, German consumer confidence was severely depressed during the consolidation period, recovering only after announced fiscal tightening ceased and then, more recently, with the help of lower oil prices.

Once this windfall dies away, a faltering external environment could well overcome the fragile underpinnings of domestic demand. Already, the once-strong export profits have begun to fade. And export opportunities will be hard to find, not just in 1986 but for several years to come. In particular, Germany will have to cope with U.S. budget and current account deficit reduction. The consequences could be far less benign than many German and other European commentators assume, based on the reading — shared even by some U.S. economists — that the U.S. budget deficit has been detrimental to European growth. On that view, the fall in world interest rates resulting from U.S. budgetary tightening should stimulate domestic investment and private consumption

Chart 5

Exchange rate of the mark



* Latest plotting: July 25

in other countries. That lift, it is claimed, would more than offset any shortfall in net external demand as the U.S. current account deficit shrinks. However, there is neither analytic nor empirical evidence to support so complacent an assessment.

Worldwide, long-term interest rates have fallen quite substantially over the last twelve months (see Chart 6), especially in nominal terms but also, it would appear, in real terms. Expectations that inflation will remain subdued over the long term have been the principal force for lower interest rates. They have benefited too from market anticipations of future U.S. budgetary tightening, Gramm-Rudman problems notwithstanding. Because *anticipations* have had favorable interest rate effects *already*, it is vital to recognize that long-term rates will fall little further once actual budget cuts wreak their demand-depressing impact. Thus, Germany currently is borrowing a growth stimulus from the future, but will have to pay it back when the tightening becomes a reality.

In sum, unless the German authorities now act affirmatively, present trends — domestic and exter-

nal — would cut the country's output yet further below its potential performance over the balance of the decade. One bitter consequence would be a renewed increase in German labor market slack. Joblessness could again run nearer 9% of the labor force than the unsatisfactory current rate of 8%. Moreover, capital formation would take a beating, since slow growth stifles domestic investment opportunities and diverts an excessive fraction of whatever savings occur into foreign investment via current account surpluses.

Entrenched pessimism

The dreary prospects facing Germany beyond this year typically are greeted with resignation in Germany itself. As elsewhere in Europe, a curious belief has taken hold that higher output growth is not attainable. The inference is drawn that a given output growth somehow must be "twisted" with the aid of wage moderation to provide stronger employment growth. In fact, mainstream economics has always recognized that, if greater employment actually does result from wage moderation, output too must rise — unless technology rolls backward or the capital stock falls to the overall detriment of the economy.

Pessimism equally extends to the unemployment question. All too often, joblessness is belittled as "voluntary." Yet as recently as 1980, Germany's unemployment rate stood at 3.4%. In the 1960s it averaged a mere 0.8% — one-tenth the present figure. Notwithstanding changed social attitudes, large-scale joblessness represents an enormous waste of resources. Much of today's unemployment has become structural in nature through the interaction of slow growth and low investment with wage-setting behavior that has

Table 4

Germany's structural budget balance

federal, state, and local governments plus social security fund, as percent of GNP

	1981	1982	1983	1984	1985	1986
Actual balance	-3.9	-3.4	-2.5	-1.9	-1.1	-0.9
Cyclical adjustment*	1.5	3.6	3.5	2.6	1.7	1.6
Structural balance*	-2.4	0.2	1.0	0.7	0.6	0.7
Net interest payments**	1.5	1.3	1.6	1.6	1.6	1.6
Structural balance, net of interest	-0.9	1.5	2.6	2.3	2.2	2.3
Excess structural balance***	-1.1	1.3	2.4	2.0	1.9	2.0

* Assumes potential growth at an underlying rate of 2½% a year until 1982 and in 1986. Budgetary contraction depressed potential growth in 1983-85 to an estimated 0.8% a year; this is reflected in the calculations. In the absence of this change, potential would have continued to grow at its underlying rate of 2½% and the change in the structural balance between 1981 and 1986 would have cumulated to 5.6% of GNP rather than the 3.1% shown in the table.

** Bundesbank profit transfers treated as interest receipts.

*** Excess of structural balance, net of interest, over surplus required to maintain public debt/GNP ratio constant in the medium term. The surplus equals the net public debt times the difference between an assumed long-term real interest rate of 3¼% and the underlying potential economic growth rate of 2½%.

Table 5

Germany's capital stock

gross stock annual average percent change, in real terms

	Manu- facturing	Total busi- ness sector*
1980-72	7.0	6.5
1972-80	2.4	3.9
1980-85	1.3	2.9
1981	2.0	3.4
1982	1.2	2.9
1983	1.1	2.7
1984	1.0	2.7
1985	1.2	2.7

*Excluding agriculture and housing.

frozen out those initially denied jobs by inadequate demand. To remedy the structural problem, institutional reforms are needed to give freer rein to the market forces that would most improve the supply potential of the German economy.

Regrettably, supply-side progress has been glacial to date. Here too, deep-rooted immobilism limits future possibilities. At last, however, the government is putting new impetus behind its long-moribund privatization program. But radical reforms, as the government may now be contemplating, also are needed in the ramshackle tax system, particularly as it bears on business. Company law and corporate finance practices still need attention, as do shopping-hours restrictions and licensing requirements in a wide range of services and professions. Most important is the promotion of real competition throughout the economy, including the protected areas of telecommunications and transport — where Germany is balking at EC efforts to open up the market — and agriculture, where Germany has been tending to throw its weight behind restrictive EC practices.

Such market reforms would raise the productivity of the German economy, strengthening employment despite rigidly high real wages. However, a much greater payoff in terms of investment, supply potential, and job creation would be won through improved functioning of the labor market. The government has shown some recognition of this through its recent changes in benefits to certain workers laid off as a result of strikes. Political circumstances and the country's traditions will determine whether further progress takes the form of labor-market deregulation and dilution of union power, wage moderation based on tax incentives and profit sharing, or direct govern-

ment involvement in wage-setting.

Whichever route is taken, major improvements in market efficiency will be slow in coming to pass. It would be helpful if supply-side reforms were approached in Germany with a positive spirit and with the expectation of more than marginal result. Neither is probable in the absence of robust economic growth, which in turn is improbable without supportive demand-side policies.

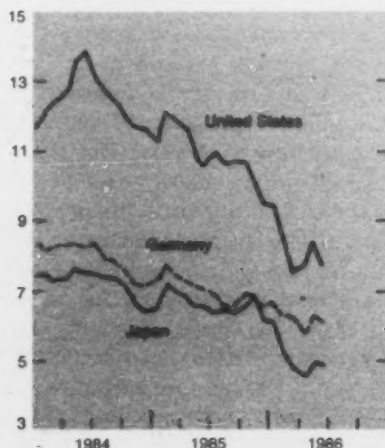
A program for faster growth

The immediate priority should be to take up the existing slack in the German economy. Today, the economy's "output gap" is of the order of 2% to 3%.* It should shrink somewhat during the course of this year. Thereafter, as noted earlier, the gap is likely to widen again and could reach 3% to 5% before the end of the decade. That could be prevented by a more expansionary thrust of domestic policies — and without inflationary harm.

By definition, the existence of a sizable output gap implies that capacity constraints are not binding for the economy at large, although with stepped-up growth they would naturally emerge sooner in some sectors than in others. Nor need faster economic growth undo the past several years' impressive recovery in the share of Germany's GNP going to profits rather than labor costs (see Table 6).

Quite different from today's was

Chart 6

Long-term government bond yields percent per annum

*At first blush, Germany's high unemployment points to a much wider margin of slack, as too does simple extrapolation of the end-1970s' peak level of output at the economy's underlying growth trend. Unfortunately, the slow growth of output in the early years of this decade depressed physical investment, especially in manufacturing where capacity utilization now runs fairly high. However, appreciation of the mark is likely to tilt future German growth away from manufacturing toward other sectors of the economy, where output growth has been particularly slow in the recent past yet growth of capital better sustained. Accordingly, the less it relies on manufacturing, the greater is Germany's potential for increased economic growth.

Table 6

Labor compensation in Germany

	As percent of GNP	Annual percent change per capita
1979	55.7	5.9
1980	56.7	6.9
1981	57.0	5.2
1982	56.3	4.2
1983	55.0	3.8
1984	54.2	3.2
1985	53.8	3.1
1986	53.7	4.0
1987	53.4	3.0

the economic backdrop to the "locomotive strategy" of the late 1970s. That strategy, which was launched at the 1978 economic summit in Bonn, was intended to provide a concerted boost to aggregate demand worldwide. It was soon overtaken by events, most notably by the Iranian revolution, which provoked a huge jump in oil prices. Besides, the degree of general economic slack had been overestimated, adding to cost pressures and fueling inflation everywhere. Most industrial countries swiftly changed course, but Germany persisted with fiscal expansion. In the end, its unintentional function as lone locomotive resulted not only in unacceptable inflation but also a large current account deficit. Ever since, German officials have reiterated unbending opposition to anything that smacks of a locomotive rerun. However, their position grossly exaggerates any parallels between the circumstances of the late 1970s and those of the present. Economic slack is pervasive in today's global economy, notably in oil and commodity markets. And in Germany itself, both cost pressures and inflation are minimal, while the current account is in outsize surplus of as much as \$26 billion this year (see Table 7). The case for expansionary policies is unanswerable.

A well-conceived program for expansion in Germany should involve a balance of fiscal and monetary actions. Neither should bear the burden alone. Fortunately, both are ripe for carefully judged relaxation.

Consider, first, the fiscal posture, which points at present to a fast-declining public-debt-to-GNP ratio in the years ahead. A loosening by DM 40 billion, or 2% of GNP, would constitute but a third of the tightening that has occurred since 1981 on an ex ante basis, that is, before taking account of the effect of shortfalls in activity on either the actual

budget deficit or the level of potential output. The budgetary position would remain in much better shape than before the consolidation process began and would be consistent with no increase, over the medium term, in the ratio of debt to GNP. The DM 40 billion tax cuts now envisioned as part of a future overhaul of the tax system therefore should be implemented without budgetary offset. At the same time, efforts to restrain public spending should be pressed forward, with particular emphasis on curbing trade-distorting subsidies; success in spending restraint would open the way for additional tax cuts.

Second, relaxation of monetary policy should complement budgetary easing, even at the sacrifice of strict adherence to the Bundesbank's present 1986 target of 3½%-5½% growth in central bank money (CBM). CBM has been growing above that range (see Chart 7). Interpretation is complicated not only by the long-standing phenomenon of speculatively motivated external capital flows — this year relating to the April realignment in the European Monetary System — but also, and increasingly, by shifts in apparent preferences within Germany for holding currency. For some years already, these shifts — which breed unpredictable behavior of monetary velocity — have been recognized and taken into account by U.S. and U.K. monetary authorities. However, their occurrence is comparatively novel in Germany and their implications for monetary policy are not yet digested. Their prime implication is the need for a degree of eclecticism in judging the policy stance, heeding not only traditional monetary data but also trends in the rate of inflation, the exchange rate, and real economic growth.

Focusing on inflation, it is worth recalling that last December, before the fall in oil prices, the Bundes-

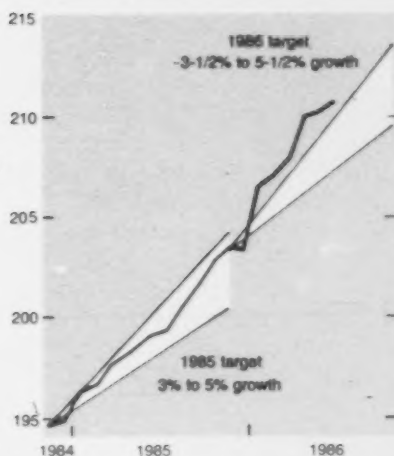
Table 7

Germany's current account balance

	\$ billions	As percent of GNP
1978	9.0	1.4
1979	-6.0	-0.8
1980	-15.7	-1.9
1981	-5.2	-0.8
1982	4.1	0.6
1983	4.1	0.6
1984	7.0	1.1
1985	13.3	2.1
1986	26.3	2.9
1987	22.4	2.1

Chart 7

Germany's money supply
and target ranges
central bank money,
seasonally adjusted



bank guardedly welcomed the achievement of "virtual price stability" in Germany. Both consumer prices and the GNP deflator had increased by about 2% in 1985, and the increase in the deflator — which is widely viewed as the best measure of "underlying" inflation — was targeted at 2% for 1986.** The deflator is not strictly a price but more nearly a weighted average of labor costs and profits. Consequently, this year's unexpectedly favorable terms of trade, which have made room for a slight acceleration in wages without harm to profits, are causing the deflator to rise temporarily at a rate close to 2¾%. Since the deflator is generally expected to fall back again in 1987 to a rate below 2%, price stability does not appear in jeopardy by the favored official test. Still less is price stability at risk — at any rate, not on the upside — by the test of consumer or wholesale prices. These prices, which are more directly relevant to business and household behavior, have been falling this year, driven by plunging import costs.

Excellent inflation performance fulfills one precondition for German monetary easing. An appreciating mark provides additional incentive. The Federal Reserve's half-point, mid-July cut in the U.S. discount rate elicited no follow-up cut in German interest rates. Within little more than a week, the mark rose perceptibly against the dollar. Although the Federal Reserve foresees a strengthening U.S. economy,

few believe a sharp rebound to be imminent. Significantly, despite the dollar's seventeen-month decline, U.S. inflation remains well contained but the trade deficit has yet to turn around. Indeed, exports have declined this year, while non-oil imports have risen sharply above year-earlier levels. Against this background, the U.S. authorities may judge further dollar depreciation a gamble worth taking. Should they move to cut U.S. short-term interest rates once more, as many now expect, the mark will again meet upward pressure — and with no clear end in sight. That would darken still further the already somber medium-term prospects for Germany's exports and jobs.

Consequently, the German authorities now must resolve an uncomfortable dilemma: to accept an ever-strengthening mark at the cost of German industry's competitiveness; or to ease macroeconomic policy in the interest of a more stable exchange rate and stepped-up growth of their domestic economy. Since Germany now has no counterinflationary prize to gain from further currency appreciation, its self-interest points to faster economic growth. The steps needed include early and substantial cuts in German interest rates.

Once that implication is accepted — and the sooner it is, the better for Germany — the Bundesbank would be well advised to rebase and revise upward its 1986 CBM target as part of an articulated program of stabilization and demand support. At the same time, the Bundesbank should give a preliminary indication of its views on appropriate targets for subsequent periods, at least for 1987. Careful explanation would help sustain the confidence of financial markets in the medium-term quiescence of inflation. Germany's enlightened example would facilitate similar action by other central

**Neither the GNP deflator nor any standard price measure establishes the "underlying" inflation rate to which the economy would tend in the absence of supply or demand shocks; all are buffeted by the shocks that have actually occurred. The underlying rate probably is most influenced by expectations of the long-term trend in money growth. Given those expectations, below-trend economic growth — or, for that matter, exchange-rate appreciation — merely produces a temporary dip in recorded inflation. It offers few of the benefits to be gained from a fall in underlying inflation but does impose real costs on the economy through inflation variability and uncertainty.

banks, not only furthering international coordination and cooperation but also redounding to Germany's own benefit through strengthened export markets.

In all, the price of continued policy inaction in Germany is unacceptably high, both for Germany itself and the world at large: German industry would suffer through ever-upward pressure on the mark, given that the United States, being unlikely to opt for domestic recession, would have to go for dollar depre-

ciation to tackle its trade problems; the United States then would experience higher inflation than otherwise necessary. Germany's neighbors would be severely handicapped by the slow growth of Europe's anchor economy. And the developing countries would find their hopes for export-oriented growth frustrated amid compounded financial problems. All these are weighty reasons for Germany to adopt the positive choice: to go for growth at home.

Statistical appendix

*For key to data in tables
see pages 18 and 19.*

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Information herein is from sources
considered to be reliable but is furnished
without responsibility on the part of
Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.8	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.8	90.0	105.0	78.4	111.5	98.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.8	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985	127.1	92.8	115.8	76.3	85.4	107.7	82.2	88.2	104.2	89.5	103.9	75.8	109.5	95.0	95.6	83.9
1985																
July	126.1	93.5	113.1	75.4	85.2	107.1	81.4	93.6	103.8	89.0	103.5	75.5	110.2	94.5	95.7	83.8
August	124.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September	125.2	92.1	114.9	74.0	86.3	108.6	79.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.9	91.3	123.6	71.8	87.3	109.8	80.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
November	117.0	90.3	129.5	67.9	87.6	109.9	80.2	89.7	105.2	90.5	105.6	72.8	113.4	96.5	94.8	83.3
December	116.1	88.9	129.2	67.8	88.3	111.3	80.2	88.3	105.9	90.4	106.7	72.9	112.3	97.3	94.9	83.1
1986																
January	115.1	87.9	130.1	69.1	88.8	112.5	81.0	85.3	106.4	91.1	107.6	73.0	112.1	97.6	94.8	82.7
February	111.2	87.5	138.8	66.9	89.5	113.5	81.7	82.6	106.8	91.6	108.2	73.2	114.2	98.1	95.3	82.0
March	109.0	87.3	142.3	66.5	89.6	113.8	82.0	83.1	107.1	91.7	108.5	73.8	114.0	98.3	94.7	81.9
April	108.1	88.0	144.9	67.4	86.8	114.1	81.7	85.0	107.1	92.4	108.7	73.5	114.9	98.3	94.5	81.9
May	105.8	88.4	150.9	66.5	86.5	114.5	82.0	84.9	107.0	92.8	109.1	73.6	115.8	98.7	89.8	82.0
June	106.5	87.6	151.1	63.2	86.5	114.6	82.0	84.5	107.1	92.6	109.2	73.2	117.1	98.9	87.8	81.8
May 9	104.6	88.0	152.1	67.0	86.7	114.7	82.2	84.7	107.1	92.8	109.2	73.8	115.9	98.8	94.4	81.7
18	104.6	88.1	154.0	65.6	86.7	114.8	82.2	84.7	107.2	92.8	109.2	73.9	116.2	99.2	87.8	82.0
23	106.4	89.0	150.2	66.4	86.4	114.3	81.9	84.9	107.0	92.6	109.0	73.6	115.7	98.7	87.9	82.4
30	107.7	88.7	148.9	66.9	86.1	113.9	81.7	85.3	106.8	92.2	108.8	73.1	115.8	98.4	87.9	82.4
June 6	107.7	87.6	148.9	64.9	86.4	114.3	82.0	84.5	107.0	92.5	109.1	73.1	116.4	98.8	87.9	82.1
13	106.0	87.8	151.7	63.3	86.6	114.7	82.1	84.6	107.2	92.7	109.3	73.3	117.1	99.2	87.8	81.7
20	106.5	87.6	151.5	63.6	86.5	114.6	82.1	84.4	107.1	92.8	109.2	73.2	117.2	98.9	87.9	81.7
27	106.1	87.8	152.0	61.5	86.5	114.6	82.1	84.7	107.0	92.6	109.2	73.2	117.7	98.9	87.8	81.8
July 4	104.7	87.9	154.7	58.9	86.6	114.9	82.2	84.9	107.1	92.7	109.4	73.6	116.8	99.1	87.8	81.6
11	104.6	88.0	156.8	57.1	86.3	115.2	82.4	83.9	107.2	92.6	109.7	74.0	116.8	98.9	87.7	81.6

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada*	Japan	Australia	France*	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands*	Spain	Switzerland	Denmark	Norway	Sweden
1981	100.7	99.9	104.7	102.8	99.8	97.4	98.7	102.3	99.1	100.9	97.3	99.4	98.8	99.2	101.1	102.1
1982	109.8	101.1	92.4	104.3	96.8	99.6	98.1	98.1	100.8	92.0	101.5	100.2	102.8	97.5	102.5	96.9
1983	112.8	103.9	96.8	100.2	94.4	100.5	101.0	92.8	102.1	89.1	101.1	91.3	104.2	99.2	101.6	91.9
1984	118.0	102.7	97.7	105.2	96.4	97.3	101.4	89.8	103.0	88.1	99.3	95.6	99.7	98.7	100.3	97.2
1985	121.0	99.0	96.5	88.8	99.8	96.0	99.9	92.4	103.2	87.4	97.3	97.7	97.9	98.5	99.2	98.2
1985																
July	120.3	99.3	93.7	88.6	99.9	95.2	99.4	98.1	103.0	86.9	97.1	97.4	97.9	96.8	99.2	97.6
August	118.1	98.7	94.2	89.2	101.5	96.5	97.9	96.2	103.7	87.3	98.0	97.4	99.4	97.8	98.2	97.2
September	117.6	99.3	95.6	87.8	101.1	96.6	98.1	96.6	103.6	87.0	97.7	97.0	98.1	98.0	100.7	97.2
October	113.9	97.1	101.4	84.8	101.8	97.3	98.8	95.1	104.1	87.1	97.8	96.0	101.5	100.4	99.8	97.2
November	112.3	98.0	105.6	80.5	101.9	97.4	98.9	95.0	104.4	87.2	97.8	96.3	101.6	100.7	100.3	97.3
December	111.5	95.0	105.2	80.9	102.1	98.3	99.4	94.0	105.8	87.0	99.0	96.7	100.5	101.8	100.3	97.2
1986																
January	109.7	95.1	105.8	83.3	101.8	99.2	100.9	91.8	107.4	87.7	99.6	99.7	99.0	100.6	100.6	97.5
February	105.0	95.8	113.1	81.9	102.5	99.9	101.1	90.0	108.5	87.9	100.4	101.2	100.7	102.2	101.4	97.1
March	101.9	96.2	116.2	82.5	102.3	100.0	101.3	91.8	108.9	87.9	101.0	103.2	101.0	103.7	101.6	96.6
April	101.0	96.8	117.5	84.5	98.7	100.2	100.9	94.9	108.9	87.9	101.2	103.7	101.5	107.2	102.2	96.4
May	100.0	96.0	121.3	84.0	98.0	100.1	100.9	95.3	109.3	88.2	101.7	104.4	101.9	108.7	97.2	96.7
June	101.0	94.9	120.8	80.7	97.6	100.0	100.7	95.3	109.8	88.0	101.9	105.0	102.9	110.4	95.7	96.5

*Revised to incorporate new national price data. Revisions also affect indices for other countries.

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore*	Taiwan	Israel	Turkey
1981	107.5	103.2	108.1	100.4	114.1	103.2	99.6	98.4	99.7	101.2	99.3	101.2	101.9	102.6	99.2	104.4
1982	76.4	112.2	96.7	104.9	81.9	103.8	109.1	102.3	110.9	103.0	104.7	105.6	99.9	96.5	107.9	95.6
1983	71.2	85.9	88.9	104.2	78.1	97.9	116.3	96.8	95.8	97.5	113.1	95.4	100.8	93.3	120.1	93.4
1984	79.9	85.7	89.9	99.4	91.6	105.7	85.6	100.4	96.8	96.1	119.3	107.6	101.5	95.6	118.8	90.9
1985	70.9	84.9	79.5	85.3	90.1	96.1	92.5	106.2	95.6	88.8	116.0	114.1	94.8	93.0	106.0	91.3
1985																
June	75.4	81.0	84.7	86.6	97.4	99.9	93.4	106.1	98.8	90.1	118.7	116.6	97.6	94.6	106.7	90.3
July	67.8	78.9	76.7	83.3	93.9	99.8	92.8	105.4	96.1	87.8	116.4	113.6	91.6	91.9	99.5	86.8
August	67.0	80.6	74.2	81.6	82.0	92.1	92.7	103.3	94.5	86.0	114.8	110.3	90.1	90.3	98.6	85.4
September	67.7	81.0	75.6	80.6	82.7	94.6	94.1	105.0	94.5	86.1	115.6	111.7	92.3	90.9	102.0	86.4
October	65.0	79.5	73.1	76.3	78.8	91.4	90.9	101.7	88.7	82.0	111.0	106.6	90.1	87.7	100.9	85.4
November	64.1	80.2	72.5	73.7	77.1	90.6	90.4	100.6	86.9	80.7	109.9	105.6	89.2	87.0	101.5	85.1
December	63.7	80.5	71.9	71.5	74.6	90.7	90.4	99.8	85.9	80.2	109.2	104.7	88.6	86.7	101.4	83.1
1986																
January	63.2	79.7	70.9	72.5	72.2	91.1	91.5	99.0	85.9	79.5	108.1	104.9	87.5	86.7	100.9	83.3
February	62.0	82.4	68.3	71.5	70.6	91.5	91.7	98.2	83.0	77.4	104.4	94.4	85.1	86.3	100.4	81.3
March	62.7	76.4	68.0	70.6	69.6	91.8	92.2	97.2	81.3	75.5	101.2	93.0	83.6	84.6	99.9	75.7
April	62.9	75.2	69.7	70.6	68.0	95.7	92.8	99.0	81.4	73.9	99.1	93.9	83.1	85.4	102.1	73.6
May	61.9	74.4	69.8	69.7	66.7	96.0	92.6	97.9	80.3	72.0	97.4	91.8	81.0	85.5	102.3	73.4

*Revised to incorporate new national price data. Revisions also affect indices for other countries.

International banking market size

at end of period, billions of dollars

	1981	1982	1983 ^r	1984	1985				
				Sept	Decr	Mar	June	Sept	Dec
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 322	2 359	2 473	2 458	2 622	2 784
On nonbanks	557	634	665	676	694	722	735	761	799
On banks	1 372	1 512	1 588	1 646	1 665	1 751	1 724	1 861	1 975
In dollars	1 504	1 694	1 797	1 857	1 894	1 960	1 924	2 002	2 039
In other currencies	425	452	456	465	465	513	535	620	725
Domestic currencies, on nonresidents	365	398	398	397	402	409	422	451	503
On nonbanks	128	132	136	142	142	147	150	165	185
On banks	237	266	262	255	260	262	272	286	318
In dollars	188	211	217	208	215	208	209	205	215
In other currencies	177	187	181	185	187	201	213	246	288
Total	2 294	2 544	2 651	2 719	2 761	2 882	2 881	3 073	3 287
On nonbanks	685	766	801	818	836	869	865	926	974
On banks	1 609	1 778	1 850	1 901	1 925	2 013	1 996	2 147	2 293
In dollars	1 692	1 905	2 014	2 069	2 109	2 168	2 133	2 207	2 254
In other currencies	602	639	637	650	652	714	748	866	1 013
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 168	2 278	2 349	2 380	2 489	2 471	2 641	2 796
To nonbanks	372	432	479	492	497	508	520	548	572
To official monetary institutions	112	91	88	94	96	98	106	109	112
To other banks	1 470	1 645	1 711	1 763	1 793	1 885	1 845	1 986	2 112
In dollars	1 539	1 741	1 846	1 912	1 950	2 010	1 969	2 045	2 099
In other currencies	415	427	432	437	436	479	502	596	697
Domestic currencies, to nonresidents	263	250	260	277	280	293	310	341	377
To nonbanks	74	70	73	75	80	82	89	103	109
To banks	189	180	187	202	200	211	221	238	268
In dollars	126	116	135	143	148	147	154	159	169
In other currencies	137	134	125	134	134	146	156	182	206
Total	2 217	2 418	2 538	2 626	2 668	2 782	2 781	2 982	3 173
To nonbanks	446	502	552	567	577	590	609	649	681
To banks and official institutions	1 771	1 916	1 986	2 059	2 099	2 192	2 172	2 333	2 492
In dollars	1 665	1 857	1 981	2 055	2 096	2 157	2 123	2 204	2 268
In other currencies	552	561	557	571	570	625	658	778	905
Net market size	1 155	1 285	1 382	1 411	1 430	1 470	1 497	1 578	1 688

Central bank discount rates

at or near end of month

	1983	1984	1985	1986					Current	
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul 21 1986	effective since
United States	8.50	8.00	7.50	7.50	7.00	6.50	6.50	6.50	6.00	Jul 11, 86
Canada	9.96	10.09	9.49	11.80	10.44	9.27	8.58	8.84	8.34	Jul 17, 86
Austria	3.75	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	10.00	11.00	9.75	9.75	9.75	8.75	8.00	8.00	8.00	May 29, 86
Denmark	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.50	9.50	9.00	8.50	8.00	8.00	7.00	7.00	7.00	May 19, 86
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	4.00	4.50	4.00	4.00	3.50	3.50	3.50	3.50	3.50	Mar 7, 86
Ireland	12.25	14.00	10.25	13.75	13.75	12.50	11.00	10.00	10.00	Jun 18, 86
Italy	17.00	16.50	15.00	15.00	14.00	13.00	12.00	12.00	12.00	May 27, 86
Netherlands	5.00	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	Mar 7, 86
Norway	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	25.00	25.00	19.00	19.00	19.00	17.50	17.50	14.50	14.50	Jun 30, 86
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	8.50	9.50	10.50	9.50	8.50	8.00	8.00	8.00	8.00	Apr 18, 86
Switzerland	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	9.00	9.38	11.31	12.31	11.31	10.31	9.81	9.81	9.81	May 21, 86
Japan	5.00	5.00	5.00	4.50	4.00	3.50	3.50	3.50	3.50	Apr 21, 86
New Zealand	7.50	13.50	19.80	24.00	22.20	n.a.	n.a.	n.a.	n.a.	Mar, 86
South Africa	18.50	21.75	13.50	12.50	12.50	12.50	11.50	11.50	11.50	May 2, 86
Argentina*	15.10	18.19	5.00	5.00	6.69	6.18	6.18	6.20	6.20	Jun 19, 86
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	7.00	Jul 10, 86
Philippines	8.05	12.11	11.50	11.03	10.52	11.02	n.a.	n.a.	n.a.	Apr, 86
Singapore	7.00	6.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	13.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	Mar, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1982	1983	1984	1985		1986					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	8.95	9.47	8.38	8.05	8.27	8.14	7.85	7.48	6.98	6.85	6.91
Canada	10.63	8.78	10.50	8.81	9.23	9.94	11.47	11.10	9.58	8.41	8.19
Austria	6.00	5.75	7.63	6.75	7.25	6.13	6.25	5.00	4.75	4.88	4.88
Belgium	9.29	7.39	9.12	7.91	6.60	8.10	8.47	7.20	8.67	6.49	5.37
Finland	11.50	16.70	15.07	12.37	11.96	11.64	11.40	11.21	11.20	12.02	10.83
France	12.88	12.27	10.95	8.98	9.01	8.83	8.77	8.52	8.18	7.38	7.22
Germany	6.15	5.61	5.62	4.61	4.64	4.58	4.59	4.90	4.76	4.30	4.40
Ireland	14.54	12.19	14.50	8.50	9.62	12.00	14.38	14.75	12.63	10.50	9.50
Italy	19.00	17.88	17.25	14.59	14.75	15.15	16.57	17.15	15.02	13.06	12.34
Netherlands	5.31	5.84	5.60	5.78	5.75	5.75	6.01	5.72	5.49	6.69	6.06
Norway	11.00	12.30	12.50	12.50	12.40	13.00	13.20	13.20	13.50	17.00	14.00
Spain	20.30	16.98	12.18	10.65	9.92	8.50	10.54	11.25	12.20	12.04	12.03
Sweden	9.31	11.52	11.88	12.00	11.83	13.00	11.10	10.83	11.58	11.33	10.00
Switzerland	1.25	1.88	1.50	0.75	2.00	2.00	1.75	2.25	2.25	2.00	1.75
United Kingdom	6.70	7.78	6.31	14.72	9.72	11.59	11.16	12.09	8.96	8.55	10.53
Australia	10.87	4.55	10.98	16.87	18.37	18.32	18.16	16.74	15.06	12.31	13.06
Japan	6.92	6.44	6.41	7.29	8.02	6.84	5.78	5.53	4.70	4.25	4.40
South Africa	14.15	16.06	21.13	13.13	12.50	12.00	11.25	11.75	12.00	10.63	10.69
Argentina*	12.77	14.85	17.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	5.00
Brazil	150.42	184.69	272.02	229.96	352.23	541.33	376.24	15.12	16.64	15.50	18.30
Hong Kong	9.13	13.90	6.80	5.43	6.10	5.93	6.63	6.48	7.81	6.02	6.91
Korea	13.84	11.40	10.00	9.00	8.80	8.50	9.40	9.70	11.00	10.30	10.00
Philippines	16.12	31.18	15.22	15.41	15.03	11.72	21.08	17.83	15.62	12.43	n.a.
Singapore	11.45	7.06	6.01	4.49	4.53	4.84	5.75	4.85	4.82	5.07	4.49
Taiwan	9.94	7.65	8.07	5.06	4.50	4.25	5.25	3.54	3.75	3.50	4.53

*Percent per month.

International bond issues and bank credits

millions of dollars

	1983	1984	1985	1986			Jan-May	
				Mar	Apr	May	1986	1985
By country of borrower								
Industrial countries	102 852	177 077	226 711	23 629	30 478	17 095	107 228	82 030
Australia	5 737	5 816	14 407	800	1 369	829	7 708	3 641
Austria	1 290	2 254	2 435	338	195	564	1 863	1 044
Belgium	2 168	1 847	3 269	1 220	526	338	2 642	989
Canada	8 571	13 124	17 184	1 257	2 533	914	7 570	7 480
Denmark	3 941	4 825	3 589	176	930	138	1 543	1 590
Finland	1 271	1 713	1 846	203	188	186	1 184	669
France	8 626	11 298	18 773	1 951	1 574	821	5 768	4 806
Germany	3 197	2 185	3 452	595	1 169	2 127	4 841	768
Greece	1 291	1 551	1 588	67	48	370	483	1 140
Ireland	1 869	1 377	1 881	—	317	502	1 263	631
Italy	4 876	6 933	11 033	684	1 943	1 933	6 108	6 312
Japan	14 428	17 526	21 269	2 908	4 059	2 253	12 024	9 057
Netherlands	1 213	1 973	2 299	491	328	57	1 525	516
New Zealand	802	3 208	2 707	662	1 121	495	2 948	640
Norway	1 969	1 324	3 905	279	537	235	1 411	660
Portugal	1 030	1 796	2 382	52	20	107	777	1 018
South Africa	1 300	1 422	825	—	—	—	—	523
Spain	4 977	4 931	3 913	177	685	298	1 474	2 348
Sweden	7 144	11 256	9 890	2 980	897	48	5 370	5 473
United Kingdom	2 726	8 899	25 424	3 071	2 931	1 019	10 125	8 510
United States	20 276	65 054	69 194	4 980	8 670	3 654	28 497	23 385
Other*	3 950	6 785	5 447	741	442	200	2 125	833
Developing countries	38 256	39 725	32 139	3 607	1 437	1 633	9 400	10 358
Latin American countries	15 592	17 464	8 115	222	150	255	916	1 033
Argentina	1 750	4 212	3 700	—	—	—	17	—
Brazil	4 475	6 649	—	—	—	—	—	—
Chile	1 405	784	1 085	—	—	—	—	—
Colombia	552	589	1 052	—	—	—	—	—
Mexico	5 138	3 918	109	—	—	50	50	—
Venezuela	237	—	48	—	—	—	—	—
Other**	2 035	1 312	2 121	222	150	205	849	1 033
Asian countries	12 978	15 893	18 410	2 845	828	668	6 392	6 336
India	968	945	818	357	—	9	620	298
Indonesia	2 363	1 924	451	657	27	—	983	400
Korea	4 387	6 201	5 898	629	174	254	1 561	2 258
Malaysia	2 197	2 605	2 220	22	—	—	54	931
Philippines	878	925	925	—	—	—	—	925
Thailand	747	1 221	1 497	600	—	406	1 016	625
Other	1 438	2 072	6 602	580	628	—	2 158	900
Middle Eastern and African countries	9 686	6 338	5 614	540	459	710	2 092	2 986
Algeria	1 993	821	1 450	300	—	—	407	1 300
Nigeria	2 343	985	—	—	—	—	—	—
Turkey	1 108	741	1 203	120	459	100	862	579
Other	4 244	3 821	2 960	120	—	610	823	1 108
Eastern European countries	1 294	3 244	5 236	250	380	548	1 919	1 602
Hungary	741	1 386	1 578	—	210	—	521	317
Soviet Union	93	1 051	1 489	250	150	548	1 248	541
Other***	460	807	2 169	—	—	—	150	744
International organizations****	16 201	13 287	20 635	2 075	899	1 138	7 720	8 943
By type of instrument and currency								
International bond issues	76 329	107 411	167 756	19 632	26 116	14 541	92 441	66 276
Eurobonds	48 501	79 458	136 731	15 326	22 051	13 034	76 097	55 311
U.S. dollar	38 428	63 593	97 782	7 791	12 032	8 607	46 078	42 642
German mark	3 817	4 604	9 491	1 490	1 698	1 990	7 590	2 872
British pound	1 947	3 997	5 766	2 098	2 412	307	5 422	2 232
Japanese yen	212	1 212	6 539	2 069	1 579	961	6 686	1 867
European composite units	2 019	3 032	7 038	650	1 729	375	3 432	2 652
Other	2 078	3 020	10 114	1 230	2 602	794	6 890	3 047
Foreign bonds	27 828	27 953	31 025	4 306	4 065	1 507	16 344	10 966
U.S. dollar	4 545	5 487	4 655	900	400	—	2 364	1 957
German mark	2 671	2 243	1 741	—	—	—	—	687
British pound	811	1 292	958	109	—	77	186	159
Swiss franc	14 299	12 626	14 954	2 335	3 116	911	9 756	4 798
Japanese yen	3 772	4 628	6 379	811	309	123	2 823	2 650
Other	1 730	1 677	2 339	151	239	396	1 216	715
International bank credits	82 074	125 922	116 964	9 928	7 059	5 874	33 825	36 655
Eurocurrency credits	74 222	112 605	110 317	9 085	6 603	5 466	31 498	33 910
Foreign credits	7 852	13 317	6 648	843	456	408	2 327	2 745
Total	158 403	233 333	284 720	29 560	33 174	20 415	126 266	102 931

*Includes multinational organizations.

**Includes unallocated.

***Includes COMECON institutions.

****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985	1986					
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun
Eurodollar										
overnight	9.25	9.50	8.63	12.25	7.88	7.81	7.63	6.88	6.81	8.25
one month	9.13	9.69	8.38	8.00	7.94	7.81	7.38	6.81	7.00	6.88
three months	9.19	9.81	8.63	7.88	7.94	7.75	7.31	6.75	7.00	6.75
six months	9.50	10.06	9.13	7.88	8.00	7.69	7.25	6.75	7.06	6.75
twelve months	9.63	10.36	9.81	7.94	8.13	7.75	7.25	6.81	7.25	6.81
Euro-Canadian dollar										
one month	10.00	9.13	9.88	9.00	10.69	12.88	10.75	8.38	8.38	8.06
three months	10.00	9.50	10.81	9.00	10.69	11.69	10.44	8.69	8.44	8.38
six months	10.13	9.75	10.06	9.00	10.44	10.94	9.88	8.69	8.50	8.56
twelve months	10.25	10.00	10.44	9.00	10.31	10.31	9.75	8.69	8.75	8.75
Euro-French franc										
one month	23.00	12.13	10.69	12.50	15.00	14.50	15.00	7.75	7.31	7.25
three months	24.00	12.19	10.69	13.00	16.25	14.00	12.25	7.50	7.31	7.31
six months	22.00	12.31	11.00	13.13	13.75	12.50	11.00	7.50	7.31	7.31
twelve months	19.75	12.63	11.38	12.25	12.75	10.75	10.00	7.38	7.50	7.38
Euromark										
one month	5.88	5.25	5.50	4.75	4.56	4.56	4.44	4.56	4.56	4.44
three months	5.88	5.88	5.50	4.75	4.57	4.44	4.44	4.50	4.56	4.50
six months	5.94	6.13	5.56	4.75	4.57	4.38	4.44	4.44	4.63	4.56
twelve months	6.00	6.38	5.56	4.81	4.63	4.38	4.44	4.44	4.75	4.63
Euro-Dutch guilder										
one month	5.13	5.81	5.69	5.75	5.69	5.81	5.50	5.75	6.13	6.25
three months	5.19	6.00	5.75	5.75	5.69	5.81	5.44	5.50	5.81	6.06
six months	5.38	6.25	5.81	5.81	5.69	5.75	5.44	5.38	5.63	5.81
twelve months	5.63	6.38	5.94	5.88	5.75	5.75	5.44	5.31	5.63	5.75
Euro-Swiss franc										
one month	2.81	3.38	4.44	3.88	4.06	3.75	4.00	4.13	4.88	5.00
three months	3.25	3.75	4.56	4.00	4.06	3.75	3.94	4.13	4.69	5.06
six months	3.44	3.94	4.63	4.00	4.06	3.75	3.81	4.06	4.56	4.88
twelve months	3.44	3.94	4.69	4.06	4.13	3.81	3.75	3.94	4.44	4.75
Eurosterling										
one month	10.56	9.13	9.50	11.69	12.75	12.56	11.75	10.81	10.00	10.06
three months	10.44	9.31	9.88	11.81	12.81	12.31	11.31	10.38	9.81	9.81
six months	10.31	9.50	10.00	11.81	12.75	12.00	10.56	9.81	9.69	9.69
twelve months	10.31	9.81	10.19	11.69	12.63	11.69	10.25	9.50	9.44	9.63
Euroyen										
one month	6.75	6.25	6.19	7.13	6.38	6.50	5.56	4.94	4.75	4.69
three months	6.75	6.31	6.19	6.56	6.13	5.88	5.25	4.81	4.75	4.88
six months	7.10	6.38	6.13	6.50	6.06	6.56	5.13	4.69	4.81	4.63
twelve months	8.81	6.44	6.13	6.38	6.00	6.56	5.06	4.69	4.88	4.63
European currency unit										
one month	12.44	8.81	9.25	9.63	10.63	9.94	10.06	7.94	7.31	7.38
three months	12.31	9.19	9.38	9.63	10.13	9.88	9.50	7.56	7.31	7.31
six months	12.00	9.44	9.50	9.63	9.75	9.44	8.50	7.38	7.31	7.25
twelve months	11.19	9.63	9.63	9.63	9.13	9.06	8.06	7.19	7.13	7.25

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1983	1984	1985	1986						
	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States companies										
Eurodollar	11.59	11.25	10.04	9.68	9.60	9.27	8.78	8.93	9.27	9.09
Euromark	7.34	6.95	6.95	6.73	6.73	6.61	6.67	6.62	6.74	6.65
Swiss franc	5.83	5.73	5.59	5.49	5.47	5.52	5.63	5.65	5.62	5.63
European governments										
Eurodollar	12.65	12.04	10.77	10.52	10.59	10.36	9.98	9.86	10.18	10.00
Euromark	8.12	7.39	7.14	7.03	6.95	6.81	6.77	6.82	6.92	6.95
Swiss franc	5.63	5.24	4.99	4.91	4.82	4.71	4.71	4.69	4.69	4.76
European currency unit	11.77	10.64	10.20	10.23	10.26	10.44	10.35	10.18	10.20	10.31

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	11.50	11.00	10.75	9.50	9.50	9.50	9.50	9.00	8.50	8.50	8.50
Canada	12.50	11.00	11.25	10.00	10.00	11.50	13.00	12.00	11.25	10.25	10.25
Austria	11.75	9.25	9.25	9.00	9.00	9.00	9.25	9.25	9.25	9.25	9.00
Belgium	15.50	13.75	14.00	11.00	11.50	12.25	12.25	11.50	10.50	10.50	9.75
Denmark	14.00	10.00	10.50	8.50	8.50	8.50	8.50	7.50	7.50	7.50	7.50
Finland	8.95	10.18	10.68	10.40	10.37	9.90	9.90	9.49	9.49	8.78	n.a.
France	12.25	12.25	12.00	10.60	10.60	10.60	10.60	10.60	10.10	9.80	9.60
Germany	8.75	7.75	7.75	7.25	7.25	7.25	7.25	6.75	6.75	6.75	6.75
Ireland	16.50	13.75	15.75	12.50	12.50	14.50	17.50	17.50	14.50	13.50	12.25
Italy	20.75	13.75	18.00	15.88	15.88	15.88	16.00	16.00	15.25	14.50	13.50
Netherlands	6.25	7.00	6.25	6.50	6.25	6.25	6.38	6.00	8.00	7.00	6.75
Norway	14.50	13.50	13.00	12.80	12.40	13.50	14.00	13.75	13.75	14.75	15.50
Portugal	23.50	30.00	29.00	22.50	22.50	22.50	22.50	22.50	21.00	21.00	18.00
Spain	16.90	17.31	15.84	14.80	14.75	14.66	14.58	14.58	14.52	14.50	14.44
Sweden	15.00	13.50	14.50	14.75	15.05	14.00	14.00	13.00	12.75	12.75	12.75
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.75
United Kingdom	10.00	9.00	9.50	11.50	11.50	12.50	12.50	11.50	10.50	10.00	10.00
Australia	16.00	12.75	14.00	19.50	21.00	20.60	20.50	19.75	19.00	18.25	17.20
Japan	6.28	5.89	5.70	5.70	5.71	5.70	5.64	5.42	5.24	5.04	4.95
New Zealand	13.00	11.00	14.00	21.50	21.00	21.00	20.00	21.00	22.00	21.00	18.00
South Africa	18.00	20.00	24.00	16.50	16.50	15.50	15.50	15.50	15.50	14.50	14.50
Argentina*	9.00	15.50	32.05	7.25	7.30	7.00	6.40	5.25	4.80	5.52	5.35
Brazil	23.81	24.00	31.00	17.00	19.00	19.00	19.50	21.00	22.50	26.00	29.00
Chile	64.11	30.90	60.82	31.88	33.34	33.46	38.07	31.76	31.99	30.60	29.38
Hong Kong	10.50	13.50	11.00	7.00	7.00	7.00	7.00	8.00	8.00	7.50	7.50
Indonesia	22.00	19.75	23.50	19.00	18.75	18.50	20.00	20.00	19.50	19.00	19.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.50	11.00	12.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Mexico	46.12	56.44	47.54	63.39	65.66	68.55	70.30	71.79	73.48	75.02	76.97
Philippines	18.00	18.00	44.00	15.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	9.33	8.98	9.40	7.20	7.20	7.20	7.20	7.18	7.15	7.15	7.15
Taiwan	10.75	10.25	10.00	9.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00
Thailand	16.00	16.00	16.50	15.50	15.50	15.50	15.50	14.00	14.00	14.00	14.00
Venezuela	17.00	16.00	16.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	14.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	11.75	12.83	12.25	10.75	10.15	10.38	9.00	8.63	9.00	9.20	9.00
Canada	12.74	12.89	12.42	10.98	10.74	12.08	12.95	12.46	12.24	10.35	10.10
France	15.86	14.35	12.94	11.68	11.76	11.38	10.81	10.13	9.82	9.44	9.85
Germany	8.20	8.30	7.20	7.00	6.90	6.80	6.80	6.70	6.60	6.40	6.50
Netherlands	7.80	8.51	7.51	n.a.	n.a.	n.a.	6.86	6.53	n.a.	n.a.	n.a.
Norway	14.13	13.25	12.75	13.50	14.00	14.00	14.00	14.00	14.00	14.00	14.25
Spain	17.10	20.07	18.32	15.80	14.92	14.87	14.82	14.40	13.91	13.99	13.71
Sweden	13.37	12.21	12.33	13.50	13.25	13.21	12.73	11.99	10.93	11.20	11.04
Switzerland	5.80	4.92	5.09	4.99	4.93	4.78	4.71	4.64	4.98	4.77	4.83
United Kingdom	12.34	11.57	11.64	11.18	11.47	11.59	10.88	9.96	9.80	10.05	10.32
Japan	7.55	7.09	6.21	7.56	6.90	6.70	5.96	5.40	5.14	5.20	5.14
Korea	16.00	14.20	15.00	13.60	13.60	13.00	12.60	12.40	12.40	12.80	12.80
Venezuela	18.00	18.00	18.00	17.00	17.00	17.50	17.00	17.00	17.00	17.00	17.00

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985		1986					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	8.15	9.28	7.99	7.40	7.25	7.15	7.23	6.50	6.24	6.45	6.13
Canada	9.80	9.71	9.84	8.85	9.24	10.55	11.55	10.19	9.02	8.33	8.59
Belgium	12.42	11.00	10.90	8.72	9.89	9.89	9.89	9.89	8.30	7.71	7.45
Ireland	15.25	12.01	15.10	10.41	11.15	14.32	15.02	12.08	9.69	8.76	9.16
Italy	19.11	16.95	14.69	13.16	13.10	13.73	13.59	13.15	12.39	11.23	10.78
Netherlands	5.63	5.63	5.88	5.88	5.69	5.72	6.13	5.56	6.88	6.50	5.88
Spain	15.28	14.46	12.00	9.25	9.25	9.25	9.25	9.25	9.25	n.a.	n.a.
Sweden	12.90	11.75	11.83	13.28	12.49	11.70	11.14	10.63	10.19	9.90	9.85
United Kingdom	9.96	9.04	9.33	11.33	11.49	12.47	12.21	11.04	10.09	9.56	9.52
Australia	9.39	8.54	12.27	18.45	19.40	18.46	17.03	14.88	12.84	12.78	12.38
Japan	5.42	4.91	4.91	4.91	4.91	4.91	4.41	3.90	3.39	3.39	3.39
New Zealand	11.25	7.80	13.50	20.02	17.62	18.27	18.48	21.64	20.41	17.34	15.64
South Africa	14.62	18.43	21.94	12.90	12.99	12.02	11.96	11.97	11.58	11.02	10.75
Brazil	115.40	179.15	273.03	245.33	379.77	n.a.	n.a.	15.40	16.79	15.90	18.60
Mexico	57.44	53.78	48.67	70.70	72.98	74.89	77.75	78.78	80.84	80.74	88.50
Philippines	14.54	15.99	47.14	16.63	16.45	16.68	23.43	23.56	19.65	15.79	n.a.
Singapore	2.74	2.69	2.91	2.89	2.94	2.96	2.80	2.64	2.58	2.35	2.42

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985		1986					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	8.94	9.99	8.34	8.01	8.01	7.91	7.80	7.34	7.17	6.96	6.75
Canada	9.95	9.87	10.10	9.25	9.45	11.25	12.05	10.80	8.85	8.65	8.65
Belgium	12.52	11.15	10.85	8.72	9.89	9.89	9.89	8.52	8.11	7.71	7.40
France	12.75	12.19	10.69	8.87	9.12	8.93	8.57	8.37	7.50	7.24	7.24
Germany	6.20	6.30	5.75	4.80	4.80	4.60	4.35	4.65	4.90	4.60	4.55
Ireland	15.75	12.19	15.13	10.50	12.00	15.25	16.25	14.63	10.75	10.25	9.25
Italy	19.00	17.88	16.88	14.63	15.13	16.00	16.75	15.00	12.75	12.13	12.25
Netherlands	5.25	6.00	5.75	5.94	5.75	5.81	5.88	5.50	5.56	6.00	6.19
Portugal	15.05	24.11	24.57	22.49	20.71	18.28	18.55	18.75	17.76	17.07	n.a.
Spain	16.98	19.00	12.21	10.47	10.51	10.68	10.72	11.59	12.27	11.63	12.06
Switzerland	3.88	3.88	5.00	4.13	4.75	4.43	4.13	4.06	4.50	4.89	5.50
United Kingdom	10.50	9.31	9.88	11.50	12.75	12.75	12.25	11.06	10.13	9.69	9.75
Australia	9.85	9.05	12.90	18.65	19.75	18.75	18.00	16.20	16.10	14.85	14.84
Japan	6.96	6.45	6.33	7.55	7.03	6.12	5.92	5.16	4.53	4.66	4.64
New Zealand	16.50	11.75	15.00	20.20	20.00	23.50	23.50	22.30	21.30	16.10	n.a.
South Africa	15.26	19.12	22.78	13.20	n.a.	12.55	12.40	12.35	11.95	11.25	10.80
Chile	55.90	20.68	20.68	19.56	22.42	19.56	19.56	14.03	19.56	12.68	14.03
Hong Kong	9.25	14.88	8.25	6.50	6.50	6.63	6.81	7.25	7.81	6.02	6.75
Indonesia	18.50	19.50	19.00	14.50	15.00	14.50	14.50	20.25	16.50	16.00	15.00
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.50	9.80	10.30	8.25	8.20	8.30	8.70	8.75	15.00	9.80	10.00
Philippines	15.98	15.61	33.21	22.45	14.61	23.05	26.05	26.45	19.32	14.57	n.a.
Singapore	8.69	8.44	7.00	5.44	5.88	5.53	5.31	5.00	4.94	5.06	4.88
Taiwan	n.a.	8.07	7.85	4.51	4.10	3.17	3.10	3.37	3.99	3.58	3.68
Thailand	12.25	16.00	12.00	15.00	15.50	11.50	11.25	10.00	10.00	9.50	8.50

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	8.25	9.70	8.35	7.88	7.75	7.75	7.60	7.16	6.55	6.82	6.65
Canada	9.85	9.82	10.05	9.20	9.40	11.20	12.00	10.75	8.80	8.60	8.60
Austria	6.25	6.50	7.50	6.13	6.50	6.25	6.38	5.50	4.88	5.19	5.13
Belgium	12.25	11.25	10.63	8.50	9.63	9.88	9.75	9.63	8.13	7.31	7.19
Denmark	9.00	6.00	6.00	7.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00
Finland	4.25	5.25	5.25	4.75	4.75	4.25	4.25	3.75	3.75	2.75	2.75
France	8.24	7.66	7.04	6.07	6.12	6.03	6.02	5.88	5.72	n.a.	n.a.
Germany	6.00	5.90	5.25	4.45	4.40	4.25	4.25	4.15	4.35	4.35	4.35
Ireland	15.25	11.75	14.63	10.25	11.87	15.25	16.00	14.50	10.75	10.00	9.00
Italy	13.25	13.25	11.64	n.a.	11.85	11.75	11.75	11.75	n.a.	n.a.	n.a.
Netherlands	5.38	6.13	5.69	5.81	5.81	5.69	5.75	5.38	5.44	5.88	6.06
Norway	13.50	12.75	12.75	12.00	12.00	12.25	12.25	12.25	12.25	12.25	13.00
Portugal	15.00	21.50	28.00	20.00	20.00	20.00	20.00	20.00	18.50	18.50	15.50
Spain	12.53	12.62	11.64	9.90	9.64	9.61	9.59	9.11	9.42	9.20	n.a.
Sweden	12.15	11.70	11.45	12.71	12.18	12.45	11.45	11.00	10.65	10.60	10.10
Switzerland	3.00	3.50	4.50	3.75	4.50	4.25	3.94	3.81	4.25	4.44	5.25
United Kingdom	10.31	9.31	9.88	11.38	11.75	12.75	12.13	11.06	10.13	9.69	9.63
Australia	10.20	10.40	12.75	17.76	18.80	18.63	17.95	16.13	14.68	13.78	13.99
Japan	7.00	6.40	6.38	7.93	7.05	6.24	6.10	5.32	4.80	4.90	4.65
New Zealand	16.50	11.75	15.25	21.84	19.98	22.99	23.55	20.56	20.16	16.42	n.a.
South Africa	15.25	20.13	22.88	13.20	n.a.	12.70	12.65	12.60	12.00	11.40	11.00
Argentina*	8.50	14.50	31.23	5.25	5.40	5.40	4.75	4.50	4.34	4.25	4.28
Brazil	21.00	23.00	27.00	16.00	18.00	18.00	18.50	21.00	21.50	26.00	29.00
Chile	47.09	20.57	20.68	21.05	23.60	22.27	23.60	16.30	14.98	13.62	15.94
Hong Kong	9.25	14.88	8.25	6.50	6.50	6.63	6.81	7.25	7.81	6.02	6.75
Korea	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	8.40	7.75	9.58	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Mexico	52.54	57.15	47.45	69.60	72.90	73.60	75.75	79.55	80.20	80.00	85.50
Philippines	14.10	14.96	31.01	12.42	12.34	11.66	13.24	14.17	12.37	14.63	n.a.
Singapore	8.25	7.44	6.13	5.01	5.26	5.01	5.01	4.94	4.78	4.94	4.82
Taiwan	7.50	7.00	6.50	5.25	5.25	5.25	5.75	4.75	4.50	4.50	4.50
Thailand	10.00	10.00	13.00	10.50	10.50	10.50	11.00	10.50	8.50	8.50	8.50
Venezuela	15.50	12.00	12.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	9.00

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	10.61	12.00	11.61	10.06	9.49	9.45	8.31	7.50	7.70	8.37	7.79
Canada	11.69	12.02	11.66	10.34	10.04	10.49	9.96	9.54	9.32	9.52	9.42
Austria	8.81	8.02	8.04	7.55	7.61	7.62	7.68	7.63	9.00	7.14	7.19
Belgium	12.66	11.89	11.56	9.43	9.60	9.62	9.38	8.41	7.46	7.93	7.66
Denmark	20.14	12.96	14.60	10.50	9.67	10.12	9.27	9.26	8.63	10.17	10.17
Finland	10.64	11.16	10.73	10.50	10.58	9.74	9.96	8.77	8.89	8.27	8.27
France	15.40	13.96	12.70	11.22	11.33	10.79	10.00	9.19	8.53	8.58	8.65
Germany	7.90	8.38	7.17	6.79	6.57	6.64	6.32	6.21	5.78	6.31	6.17
Ireland	14.54	14.25	14.90	12.10	11.84	11.92	10.68	9.35	8.57	9.17	9.31
Italy	19.70	17.69	14.52	13.70	13.66	13.43	13.80	13.35	12.27	10.87	10.85
Netherlands	8.16	8.58	7.72	7.01	6.96	6.81	6.84	6.44	6.15	6.39	6.38
Norway	13.32	12.50	12.00	12.70	13.10	13.10	13.20	12.80	12.80	12.80	13.10
Portugal	16.63	22.11	22.23	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	15.46	17.25	13.93	12.12	12.30	12.35	12.36	12.22	12.06	11.44	10.98
Sweden	13.01	12.30	12.04	13.10	12.11	12.23	11.60	10.81	9.81	10.06	9.79
Switzerland	4.23	4.53	4.80	4.53	4.42	4.42	4.27	4.16	4.24	4.39	4.49
United Kingdom	10.62	9.94	10.25	10.17	10.35	10.56	9.83	8.75	8.73	9.11	9.32
Australia	13.00	13.65	13.50	15.05	14.85	14.10	13.70	12.60	12.25	12.65	12.85
Japan	7.96	7.45	6.47	6.36	5.92	5.57	5.33	4.67	4.79	5.57	n.a.
New Zealand	12.84	10.50	16.90	17.10	17.10	18.15	18.60	18.90	16.80	15.15	15.20
South Africa	11.31	13.64	16.55	17.50	n.a.	17.57	17.30	17.65	17.40	17.09	16.99
Philippines	13.64	14.47	18.54	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Venezuela	15.00	13.50	14.00	12.00	12.00	12.25	12.00	12.00	12.00	12.00	12.00

Key to data in tables

I. International markets

Data on the *international banking market size* are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An *international bond issue* may be either a Eurobond issue or a foreign bond issue. A *Eurobond issue* is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A *foreign bond issue* is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibles, bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An *international bank credit* may be either a Eurocurrency credit or a foreign credit. A *Eurocurrency credit* is one denominated in a currency that is foreign to the country of the bank office extending the credit. A *foreign credit* is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extending the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly*.

II. Domestic markets

Central bank discount rates

Rates shown are the official discount rates with the exception of:

Ireland — Short Term Facility rate.

South Africa — discount rate for 90-day banker's acceptances.

United Kingdom — rate of discount for outright purchases of 15- to 33-day bank bills.

Day-to-day money rates

Argentina — 7-day interbank money regulated by the central bank.

Austria — day-to-day interbank rate.

Australia — effective interest rate in the official short-term money market.

Belgium — day-to-day loan rate in the call money market.

Brazil — interbank overnight money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48-hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — overnight interbank call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

Taiwan — private, interbank overnight loan rate.

United Kingdom — call money.

United States — federal funds rate.

Treasury bill rates

Australia — 13-week Treasury notes at tender.

Belgium — new issue of 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month central bank exchequer bills at tender.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — tap issue rate for 3-month Treasury bills until December 1984. As of January 1985, 3-month Treasury bills at tender.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — 6-month Treasury bills at tender until March 1984. As of April 1984, 3-month Treasury bill repos reported by the Bank of Spain (average of quotations during the month).

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — buying rate for 90-day bank accepted commercial bills.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — central bank 60-day fixed rate promissory notes (PDBC) at tender.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month "gensaki" rate.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month banker's acceptances.

South Africa — 90-day banker's acceptances.

Spain — 3-month interbank rate reported by the Bank of Spain (average of quotations during the month).

Switzerland — 3-month interbank deposits.

Taiwan — 90-day banker's acceptances.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the central bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — negotiable 3-month time deposits of more than HK\$500,000.

Ireland — 3-month deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit until September 1983. New series as of October 1983, 3-month promissory notes.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — weighted average interest rates on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Key to data in tables — continued

Singapore — 3-month certificates of deposit.
South Africa — 3-month negotiable certificates of deposit.

Spain — deposits over 6 months and less than 1 year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — maximum rate for 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposit for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — secondary market yield for 10-year Treasury bonds.

Belgium — Belgium National Bank secondary market average yield on central government bonds of more than 5 years' maturity quoted on Brussels Stock Exchange.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — INSEE secondary market weighted average yield of public sector bonds with a remaining maturity of 10 years or more.

Germany — Frankfurter Allgemeine Zeitung 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9 years or more.

Japan — secondary market average yield on longest-term life government bonds as quoted by the Securities Dealers Association of Japan.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 5 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for central bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — Bank of Spain secondary market weighted average yield of several central government issues with more than 2 years' maturity (average of quotations during the month).

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — overdraft rate. Maximum indicator rate applying to loans of A\$100,000 or more for major trading banks.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime lending rate set by the Hong Kong Association of Banks.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — private banks' average interest rate for 1-year loans reported by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market weighted average yield of industrial bonds with a remaining maturity of more than 3 years.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on corporate bonds guaranteed by local banks, with an original maturity of 3- to 5-years.

Netherlands — CBS average yield on three 6%-8.5% corporate bonds until December 1981. As of January 1982, CBS secondary market weighted average yield on all commercial bank issues with a quotation between 92% and 103%.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — Bank of Spain secondary market weighted average yield of several corporate issues with more than 3 years' maturity (average of quotations during the month).

Sweden — Central Statistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stocks with an average of 25 years to maturity.

United States — Salomon Brothers index of new issues yields for AA industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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Brazil: beyond the Cruzado Plan

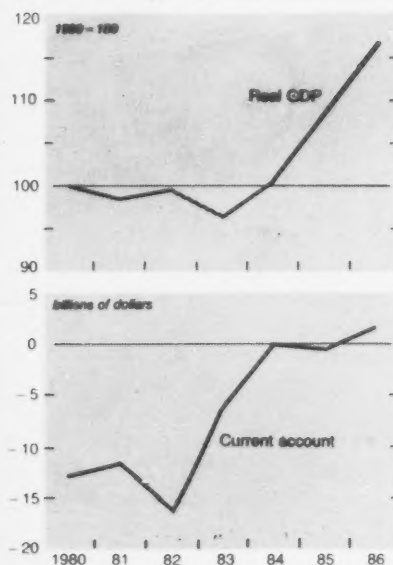
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Chart 1

Real GDP and current account



Enthusiasm for Brazil — at times, bordering on the uncritical — has surged since it adopted the Cruzado Plan last February to halt the country's seemingly inexorable drift into hyperinflation. The rave notices contrast sharply with the negativism pervading much international commentary on Mexico and other Latin American countries. The Plan has worked wonders for the inflation figures so far. Moreover, the economy has rebounded from its recession lows of 1983 into veritable boom during the past eighteen months: real GDP growth exceeded 8% last year (see Chart 1) and industrial production in the first half of 1986 was up 12% from the year-earlier period. Indeed, the nation's per capita income could soon surpass its pre-debt crisis peak. On the external side, Brazil is headed for surplus on current account both this year and next. Not only is the country a prime beneficiary of the lowest international oil prices and interest rates in a decade, it also is enjoying the fruits of its own long-standing efforts at export promotion and import substitution. Brazil notched up a trade surplus of \$7.2 billion for the first seven months of 1986, helping to carry the central bank's foreign exchange reserves to

an all-time high and, for the third year in a row, fully covering the interest on its foreign debt of some \$106 billion.

These economic achievements, plus the successful transition from military rule to a democracy with stable political prospects, provide Brazil a twofold opportunity: to develop for the medium term a sustainable combination of fast economic growth and low inflation; and to be the first Latin American country to recover normal access to the international capital markets.

Still, there are distinct risks that the opportunity will be allowed to slide. The near-stability of prices during the now six-month-old freeze is no guarantee that inflation will not surge anew once it is lifted. In preparation for that day, it is therefore both urgent and essential that the government exercise greater restraint than is yet apparent in wage, monetary, and spending policies.

Besides near-term inflationary risk, the consumption boom that powers Brazil's economic recovery at present is unlikely to elicit the increase in domestic savings and investment that sustained growth requires. There is no good substitute for supply-side reforms to curb government spending and the reach

Chart 2

Consumer prices percent change from year earlier

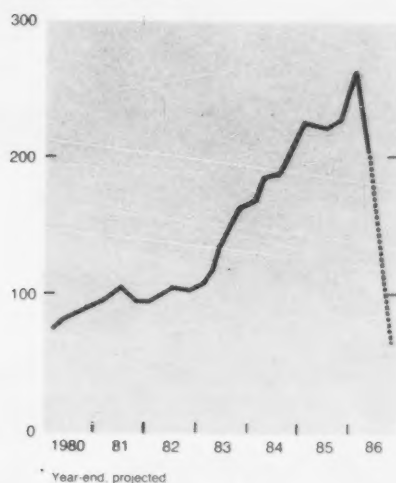


Table 1

Real GDP growth percent change

	1983	1984	1985	Proj. 1986
Total	-3.2	4.5	8.3	7
Consumption	-4.1	2.7	8.7	8
Investment	-11.1	-1.0	7.9	8
Exports	14.6	22.1	1.0	2
Imports	-16.4	-6.9	-10.0	20
Industry	-6.2	6.0	9.0	10
Agriculture	2.2	3.2	8.8	-6
Services	-2.4	4.0	7.9	8

Table 2

Trade balance billions of dollars

	1980	1982	1985
Total	-2.82	0.78	12.47
Petroleum	-9.36	-8.61	-3.92
Machinery	-1.69	-1.22	0.20
Metals	-0.29	0.40	2.49
Chemicals	-2.34	-0.96	-0.35
Plastics and rubber	-0.21	-0.01	0.33
Shoes	0.41	0.52	0.97
Foodstuffs	7.37	6.53	8.38
Other	3.29	4.13	4.37

of state enterprise, deregulate the private sector, and open the economy to foreign competition. Such reforms could do much to ensure that scarce domestic savings are used efficiently: to produce goods and services competitive in the world marketplace. Reforms also would boost confidence in Brazil among both Brazilian entrepreneurs and potential foreign investors and lenders. The investment climate would be further enhanced by concrete progress on Brazil's part to negotiate a stretch-out of foreign debt maturities, regain access to bilateral official credit, and reduce its overall level of debt through repayments and market-based conversions into equity.

Key accomplishments

Brazil's Cruzado Plan, named for its redenominated currency, resembles the anti-inflation programs implemented by Argentina and Israel a year ago. Before the Plan's unveiling, inflation had been Brazil's most conspicuous problem to defy solution. Indeed, it had been on a radically worsening trend. Price increases, kept under 50% per annum during the 1970s, doubled in 1980-82 and doubled again in 1983-85 (see Chart 2). The government proved unable to respond effectively to supply shocks and cost pressures. Thus it stuck with the custom of widespread indexation and failed to assert coordinated and credible restraint in its monetary, fiscal, and wage policies — even with the IMF's 1983-84 involvement. It was only at the end of February this year, after inflation threatened to spiral beyond the previously established 200%-300% range, that the authorities acted with courage.

The Plan prescribed a price freeze, a one-time nominal wage adjustment, an end to currency de-

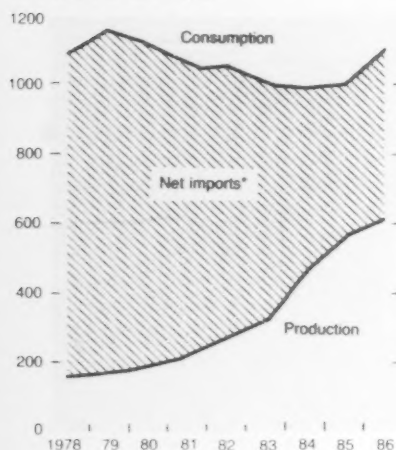
valuation vis-à-vis the dollar, and abolition of indexation for financial instruments with maturities of less than one year (with the exception of passbook savings accounts). It further offered a pledge to balance the government budget and pursue a noninflationary monetary policy. So far, the Plan has virtually halted inflation: in its first five months, March through July, the cost of living rose by a cumulative 4.6% — the lowest in decades. Everyone in the private sector has had to adapt to life without inflation, not least by cutting costs and improving productivity. The hope is that mind-sets will shift toward permanently lower inflation expectations before the inevitable removal of the straitjacket the Plan now provides.

Aside from this year's seeming breakthrough on inflation, Brazil's most notable accomplishments during the past four years have been its recovery of fast economic growth and the turnaround in its external trade and current accounts. They are intimately related: had the current account failed to improve, from a deficit of over \$16 billion in 1982 to a small surplus by the second quarter of 1984, Brazil's recovery from the 1981-83 recession might well have been deferred indefinitely. Instead, improving net exports cushioned weakening consumer and investment spending in 1983 and got recovery started in 1984, when real GDP rose 4½% (see Table 1). Expanding domestic demand then pushed GDP growth to 8.3% in 1985. This year's growth could run to 7%, thanks in part to a windfall income gain of over 1½% of GDP provided by the drop in world oil prices and interest rates.

Brazil's trade gains have occurred across the board (see Table 2), reflecting an import substitution and export promotion drive begun in the 1970s, a strongly competitive exchange rate since early 1983 and,

Chart 3

Petroleum demand and supply thousands of bpd



*Including inventory changes

more recently, the oil-price collapse. Although questions may be raised about its long-term economics and the cost in terms of external debt accumulation, import substitution has yielded the largest single benefit to Brazil's overall trade through the oil sector. The nation's net petroleum import bill was slashed from \$9.4 billion in 1980 to \$3.9 billion by 1985. This was almost wholly due to a 60% cut in net import volume: domestic oil production rose steeply but consumption held steady as demand shifted to alcohol fuel and hydroelectricity (see Chart 3). Petrobrás, the state oil concern, boosted its exploration outlays sharply from 1979 onward. Offshore deposit discoveries enabled output to climb from 170,000 bpd in the 1970s to over 560,000 bpd in 1985 and about 615,000 bpd this year. Oil consumption now is on the rise again. It could be 100,000 bpd higher this year than last, raising net import volume at least 10%. Even so, the price collapse should cut Brazil's net petroleum import bill to little over \$2 billion — the lowest since 1973.

Brazil's other significant trade gains have arisen in sectors targeted many years ago for import substitution or export promotion, enjoying tariff protection, tax concessions, and credit subsidies. Incentives were greatly reinforced by the sizable cruzeiro devaluation against the dollar in February 1983 and the subsequent daily adjustment of the exchange rate in line with domestic inflation, a policy followed until this past February. On an inflation-adjusted, trade-weighted basis, the cruzeiro was 15% more competitive on average during 1983-85 than in the previous three years.* And today, because of dollar depreciation, the cruzado is 25% more competitive than was its predecessor in 1980-82 (see Chart 4).

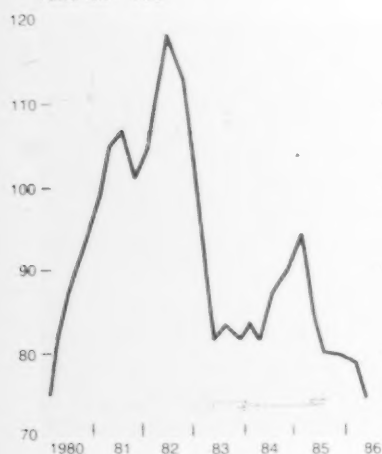
Sectoral trade balances tell the

story. Lower imports eliminated the machinery deficit in 1984. Of course, since internal demand for capital goods now is returning to more normal, pre-1982 levels, Brazil is unlikely to hold onto its trade balance improvement here, nor is it especially desirable that the country should do so. The improvements in other targeted sectors look more durable. Net exports of iron and steel surpassed \$2 billion in both 1984 and 1985, versus a mere \$400 million in 1980. Aluminum, which was imported until 1981, now is exported. And import dependence for other metals has greatly diminished. Net imports of chemicals have plummeted 85% since 1980, for annual savings of \$2 billion. The trade deficit in plastics and rubber has turned into surplus. And net exports of shoes have more than doubled since 1980.

In all, Brazil is accomplishing steady product diversification of its exports. Traditional commodities are becoming less prominent, while manufactures account for a growing share of the total. Their share, which was less than 30% a decade ago, rose to 45% in 1980 and reached 55% by 1985 (see Table 3). Geographic market diversification is a different story (see Table 4). Although Europe still absorbed the largest share of Brazil's total exports last year, the United States has become by far the principal buyer of Brazilian manufactures exports, taking about two-fifths. Indeed, Brazil's overall export gains owe much to the strong growth of U.S. domestic demand. By contrast, during 1980-85 Brazil managed

Chart 4

Real effective exchange rate 1980-82 = 100



*Exchange-rate adjustments were made against the dollar in lockstep with changes in an index of general inflation incorporating consumer, wholesale, and construction prices. During late 1984 and early 1985, the dollar strengthened and manufactures prices — used in the calculation of inflation differentials between Brazil and its trading partners — rose much more rapidly than prices of foodstuffs and services. Therefore, Brazilian industry lost competitiveness during this period as shown in Chart 4.

Table 3

Composition of exports

	Billions of dollars			1985, % of
	1980	1982	1985	total
Total	20.1	20.2	25.6	100.0
Manufactures	9.0	10.3	14.1	54.9
Processed commodities	2.4	1.4	2.8	10.7
Raw commodities	8.5	8.2	8.5	33.3
Other	0.3	0.3	0.3	1.1

Table 4

Destination of exports

	Billions of dollars			1985, % of
	1980	1982	1985	total
Total	20.1	20.2	25.6	100.0
United States	3.5	4.0	6.8	26.5
Europe	6.6	6.3	7.4	28.9
Japan	1.2	1.3	1.4	5.4
OPEC	1.5	1.9	2.6	10.1
Latin America*	3.2	2.3	1.8	7.1
Eastern Europe	1.3	1.2	1.0	3.9
China	0.1	0.1	0.8	3.2
Other	2.7	3.1	3.8	14.9

*Ecuador and Venezuela included in OPEC.

Table 5

Current account

billions of dollars

	1980	1982	1983	1984	1985	Projected	
						1986	1987
Merchandise exports	20.1	20.2	21.9	27.0	25.6	26.7	29.0
Merchandise imports	-23.0	-19.4	-15.4	-13.9	-13.2	-13.7	-16.5
Trade balance	-2.8	0.8	6.5	13.1	12.5	13.0	12.5
Oil	-9.4	-8.6	-6.8	-4.8	-3.9	-2.3	-3.0
Non-oil	6.6	9.4	13.3	17.9	16.4	15.3	15.5
Interest receipts	1.1	1.2	0.7	1.2	1.5	1.1	1.0
Interest payments	-7.5	-12.6	-10.3	-11.4	-11.1	-8.9	-7.4
Other services and transfers, net	-3.6	-5.7	-3.7	-2.9	-3.2	-3.7	-4.4
Current account	-12.8	-16.3	-6.8	0.0	-0.3	1.5	1.7

scant export gains to Europe and Japan, whose domestic markets were sluggish and import growth minimal — aggravated, in Europe's case, by stiffening trade restrictions; Brazil's sales to Latin America and Eastern Europe fell steadily; increased exports to OPEC members depended on countertrade or Brazilian export credits; and it was too soon for the Chinese market to absorb Brazil's goods on a large scale, whatever that market's future promise.

Also, Brazil is benefiting enormously from the fall in international interest rates, given that 80% of the nation's \$95 billion medium- and long-term external debt is priced on a floating-rate basis, as is virtually its entire \$11 billion short-term debt. Gross interest payments, which peaked at \$12.6 billion in 1982, should be less than \$9 billion in 1986 (see Table 5). If LIBOR and other market interest rates remain unchanged, Brazil's interest bill could fall to \$7½ billion next year — no higher than in 1980. Since fast-rising non-oil imports mean that the trade surplus is running barely higher than last year's \$12½ billion, it is the drop in interest payments that promises to shift Brazil's current account position from rough balance

in 1984-85 to surpluses of \$1½ billion to \$2 billion in 1986 and 1987.

Problems of demand management

Brazil has much to do over the coming months to ensure that inflation remains low and to set the basis for self-sustaining economic growth in the years ahead. The most immediate challenges concern demand management. Without demand restraint, market prices for goods and services could rise far above freeze levels. The more time passes before effective restraint is exercised, the tougher it will have to be.

Brazil's struggle to keep inflation low has only just begun. The price freeze — centerpiece of the Cruzado Plan — shows signs of crumbling. When the freeze was imposed, many prices were far from equilibrium, as is typical of runaway inflations in which relative prices vary greatly. The freeze has generated booming demand for such items as milk, meat, gasoline, cars, refrigerators, and television sets, all of which happened to be priced very low by historic standards relative to other items. For example, during the first six months of 1986 51% more refrigerators and 58% more color television sets were sold than in first-half 1985. At the same time, their production was discouraged by the unattractive pricing. Not surprisingly, shortages and distortions have appeared: used car prices, for instance, are higher than the list prices of hard-to-find new cars.

Wage policy is not supportive of the freeze, nor of low inflation in the medium term. Before wages were frozen, catch-up increases were decreed for workers whose real pay had fallen behind the average of the preceding six months. In addition, wages were raised generally — minimum wages by 15% and others by 8% above past inflation. These in-

Chart 5

Real wages and unemployment rate in Greater Sao Paulo



creases came on top of strong real wage gains in the previous year-and-a-half (see Chart 5). Besides, wages have drifted higher during the freeze period itself. Meanwhile, for quite some time now, unemployment has fallen and there have been substantial employment gains. Coupling with the real wage gains, they have provided a big fillip to consumer real incomes.

Most ominous is the Cruzado Plan's provision to raise wages by the full extent of accumulated inflation if the cost of living rises more than 20%. This trigger clause, providing more prompt and complete wage indexation than existed before February, militates against either a tolerably low, or a reasonably stable, post-freeze rate of inflation. It best would be dropped — and the sooner the better — despite annoyance to organized labor and risk to the government's popularity.

Monetary policy has further undermined the price freeze. The authorities were anxious from the start to accommodate the quantum leap in demand for money anticipated in the new environment of near-zero inflation. M1 soared a startling 150% in the first three months of the freeze, from the equivalent of 3.4% of GDP to 8.4%. Unfortunately, much of the step-up in cash demand appears to be transactions-related rather than a permanent jump in demand for cruzados as assets to hold. Indeed, within days of the Cruzado Plan's announcement, Brazilians began to exhibit behavior consistent less with zero actual inflation than with high expected inflation: they rushed to buy durable goods, stocks, dollars, real estate, art works, and the like. The differential between the official and the black-market quotation for dollars, which had stood less than 20% in 1984 and first-half 1985 but which had increased to the 30%-40% range in the uncertainty-wracked

weeks before the Plan's unveiling, climbed still higher and continues above 50%.

Recent official actions suggest growing awareness of the pressing case for a policy switch. Since late June, the monetary authorities have placed quantitative limits on consumer credit, allowed market interest rates to move to positive levels on a real after-tax basis, and expressed the view that monetary growth should slow. Whereas M1 rose 15% in June, in July it did not rise at all. Still, since demand for goods, services, and nonmonetary assets remains unusually strong, monetary policy tightening will have to be maintained for quite some time before effective control is recovered.

The expansionary thrust of fiscal policy was left unchanged upon introduction of the Cruzado Plan. The authorities believed that a tax increase passed by Congress just three months earlier plus the sudden halt in inflation would provide a major boost to the real value of tax collections relative to GDP. The expected gains were to close a budgetary gap of about 4% of GDP. In fact, the Treasury's current revenues rose a meager 8% in real terms during the first seven months of this year — roughly in line with GDP and disappointingly little in view of the 23% jump in 1985 collections and the continuing strong growth in consumption of heavily taxed items. Tax revenues have been eroded by two ill-timed features of the approved tax bill: a lowered income-tax withholding schedule and an increased reliance on taxation of financial transactions no longer popular now that inflation is so low. Also, revenues at state-owned companies, such as public utilities, are coming in below budget because they were hurt by the price freeze; and, although reliable data are not available, government spending at vari-

ous levels appears to be running higher than anticipated. Consequently, the budgetary gap has not narrowed.

Overspending is Brazil's basic fiscal problem. Three areas merit special mention. First, although production and consumption subsidies were cut a great deal during 1983-84, they have since staged a comeback. The wheat subsidy, which was supposed to have been phased out years ago, is more expensive than ever: for a bumper crop, producers are getting a support price of \$242 per ton while consumers are charged \$77 per ton. To reduce shortages caused by the price freeze, a subsidy to milk producers has been instituted, foodstuffs are being imported duty-free, and there is pressure to grant tax breaks to other industries experiencing difficulty. And the oil-substitution program provides massive subsidies to sugarcane producers and alcohol fuel consumers now that world oil prices are less than half the program's break-even point of about \$35 per barrel.

State-owned companies are a second trouble spot. Their wage bill has been going up in line with the economywide trend and their investment spending has been recuperating from major cuts forced in 1983-84. However, many of their prices were reined in last year in vain attempts to brake inflation and were caught by the freeze at what may be unprofitable levels. The worst situation is faced by Siderbrás, the steel group, which lost \$2½ billion last year. Eletrobrás, the electric-energy holding company, was alone in obtaining some price relief right before the freeze but has had to postpone implementation of a new tariff structure to correct more than a decade's underpricing — electricity prices in Brazil are among the lowest in the world, 50%-75% below levels in

most industrial countries.

A third problem area is the official sector of the banking system. This consists of giant federally owned commercial, development, and savings banks plus a multitude of state-owned financial intermediaries. All told, the system accounts for nearly 70% of domestic deposits and almost 60% of domestic loans. Prior to the Cruzado Plan, when inflation was in the triple-digits, the commercial banking system enjoyed high profits. Banks had access to funds (notably checking accounts) that were neither indexed nor remunerated, yet they were lent on an indexed, well-compensated basis. Presently that key source of operating profits has greatly diminished. But the fixed costs of deposit-taking continue. Privately owned banks are adjusting by reducing payrolls and closing branches; government-owned banks are not. Between March and June, banks as a whole cut their workforce by over 80,000. But official banks cut less than 5,000, raising questions about their adaptability and potential call on fiscal or monetary support.

These and other expenditure issues must be tackled — firmly and soon — if fiscal policy is to play its part in preventing a burst of inflation after the price freeze expires or disintegrates. True, revenue-raising measures, such as a possible income-tax increase, also would dampen aggregate demand. The government already has imposed new indirect taxes and "compulsory loans." But the chances are that, without visible action on public spending, the now widely held expectation of rising inflation will go unchanged. The authorities then would find themselves ill-equipped to control inflationary behavior and pressure on the currency. Admittedly, adoption of the restrictive policies capable of minimizing inflationary pressures would crimp eco-

economic growth. Expansionary policies, on the other hand, might delay a slowdown in activity but only at the cost of validating the return of high inflation. This trade-off appears unavoidable in the short run, say, through 1987. Yet, there is much that can be done to assure low inflation in Brazil plus satisfactory economic growth beyond 1987.

The dearth of investment

Brazil's three-year recovery of economic activity is jeopardized, not only by the threat of a price explosion, but also by the increasing pressure of consumer demand on available capacity. Capacity constraints — most obvious in Brazil's industrial sector and in such services as telecommunications and electric power generation — stem from a sharp drop in gross capital formation. This fell from 21½% of GDP during 1980-82 to 16½% of GDP during 1983-85. Firms surveyed in Greater Sao Paulo, which account for nearly 60% of the country's industrial output, report their capacity utilization is fast approaching all-time highs (see Chart 6). Some branches of industry are operating above notional capacity.

The capacity problem only can be solved through increased investment. Yet, Brazil's private sector is inhibited by overriding worries about the role of government in the economy and the direction of government policies. One spur to concern is the political calendar. Acting as a constituent assembly, the Congress to be elected this November is to rewrite the constitution during the course of next year. A first set of proposals, passed by a presidential advisory committee, already is having a chilling effect, since it amounts to a call for even more nationalist, statist development policies. For self-protection, the private sector is

moving to see that its voice is heard in the November elections.

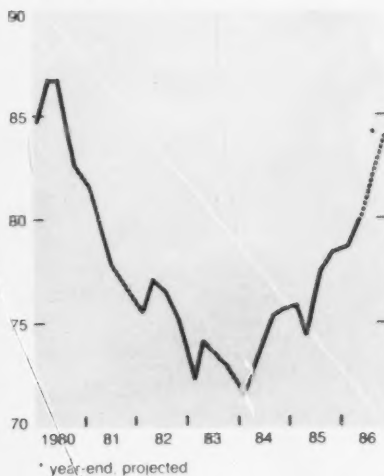
In the past, Brazil's development was orchestrated by government planners who gave top priority to massive infrastructure, import-substitution, and natural-resource projects. The projects were carried out mostly by large private and state-owned companies, underwritten by credit subsidies, tax benefits, import protection, and government guarantees on foreign borrowing. But, with few exceptions, expansion of state enterprise is no longer a precondition for future investment growth. Besides, spiraling inflation and a heavy external debt have highlighted the costs of the old approach.

As President Sarney has acknowledged, what Brazil needs most in a new development strategy for the 1990s is room for private initiative guided by correct market signals. He stated in July 1985 that the private sector should play the leading dynamic role in development, unfettered by arbitrary and paternalistic state intervention. He endorsed the widespread desire for drastic cutbacks in the public sector, to shut down inefficient agencies and retain in state hands only those companies essential to governmental functions. He further pledged reduced budgetary imbalances to set the stage for lower interest rates and greater credit availability to the private sector. Later his views were incorporated into a 1986-89 Development Plan approved by Congress.

Subsequent actions have not lived up to the president's expressed desires. Besides the Cruzado Plan's rigid price freeze, which extends the reach of government as never before, there are disappointments aplenty. A new irritant is the recently created National Development Fund, financed by a 25% tax on international airplane tickets and

Chart 6

Capacity utilization index for industry in Greater Sao Paulo



central-bank sales of dollars for tourism abroad plus the proceeds from "compulsory loans" of 28% on gasoline and alcohol fuel and up to 30% on new and used cars. The stated rationale is that the private sector is neither saving nor investing enough, so that government must obtain resources from the well-to-do to carry out social and infrastructural investment.

In last month's draft industrial policy statement, the industry and commerce minister called for design and execution of a program to privatize state-owned industrial companies. Privatization efforts actually go little further than the sale of a small portion of government-held shares in Petrobras, amounting to 5% of its total issue, plus a minority interest in one of its subsidiaries. Even if most major state-run companies remain in the public sector — and this seems to be the present political reality — the authorities would do well to define clear and sensible limits to their activities and prerogatives. For example, the present shortage of telephone capacity would ease most quickly if private firms could participate in this field that the state monopoly now reserves to itself.

Plans to modernize the civil service and reform the administrative apparatus aim to consolidate dozens of decentralized agencies within the central government budget. But they miss the opportunity to prune bureaucracy and interventionism. Both are key sources of risk and uncertainty for the private sector. Brazil's recent "emergency" import of beef to relieve shortages provided a vivid illustration of the bureaucracy at work; the involvement of over twenty separate government agencies caused the beef to arrive inordinately late and in inadequate amount. Of greater significance is the needlessly wide discretion permitted SEI, the government agency charged

with interpreting legislation on technology transfer and production or import of computers and other equipment with electronic components. SEI delays and decisions have provoked a chorus of complaints, even from other quarters in the public sector.

Although the cause of deregulation in Brazil generally remains in its infancy, regulatory reform is badly needed. One encouraging development is the authorities' agreement to World Bank conditions for a \$500 million agricultural loan that would curtail interventionist pricing, credit extension, and export and import restrictions. The authorities also are attempting to break up the maritime shipping cartel that puts Brazilian manufactures exporters at a competitive disadvantage in world markets by keeping freight charges high.

For efficiency's sake, Brazil must open itself more to competitive forces from abroad by liberalizing commerce in services as well as in goods. With merchandise imports of just \$13 billion, of which less than \$10 billion are non-oil, Brazil today is one of the world's most closed economies. Its imports run barely over 5% of GDP, decidedly lower than in other countries at a similar stage of development, and low even compared with other large, inward-looking nations such as China and India. Brazil is especially autarkic on technology issues. Foreign patents, copyrights, and other intellectual property rights are inadequately recognized. Moreover, foreign investors in Brazil suffer discrimination through government procurement policies giving preference to companies owned by nationals and through "market reserve" policies — notably, in data processing equipment — that exclude or discourage foreign participation.

Brazil's innumerable impediments to imports, resulting from efforts

over many years to promote self-sufficiency, have given rise to oligopolies in much of its domestic industry. These oligopolies have long exacerbated inflationary behavior. In the absence of import competition, firms often maximize profits by raising prices rather than enforcing cost discipline, even during periods of recession. Currently, import restrictions also are beginning to affect production technology and output quality. Export-minded companies increasingly find themselves unable to import — and, in the case of multinationals, are barred from producing — component parts embodying the modern technology that is the norm in foreign markets. Meanwhile, self-sufficiency in small- and medium-sized computers has meant that equipment made in Brazil costs several times what it does abroad. Moreover, much of the available software is copied or smuggled in. Thus current policies send signals at odds with efficient resource allocation. Private-sector entrepreneurs are diverting their talent and capital to reinvent technological wheels instead of creating jobs and output that exploit Brazil's many comparative advantages.

Brazil's protectionism further jeopardizes its access to foreign markets. Its trading partners — and not just the United States — are loath to take in more Brazilian goods when there is little reciprocity of access to the Brazilian market for their goods, services, and investments. Brazil-U.S. relations are under considerable strain; trade and investment discussions have not led to negotiations, much less concessions. Meanwhile, several U.S. industries — for example, steel and footwear — have filed, and others likely will file, complaints against Brazilian trade practices, seeking relief from imports from Brazil. Besides, the U.S. Congress has become increasingly unfriendly toward

Brazil and other countries with large bilateral trade surpluses. Potentially most damaging is a Section 301 "unfair trade" case initiated by the U.S. administration against Brazil's policy on computer imports and technology transfer. Sanctions could be imposed as early as mid-September.

Returning to creditworthiness

The international financial markets are not likely to declare Brazil creditworthy tomorrow. But its return to creditworthiness certainly lies within reach. Brazil's balance of payments adjustment is incomplete, since the turnaround in the current account has not been matched by normalization in the capital account. To instill the necessary confidence among potential foreign lenders and investors, it would be advisable for Brazil to settle outstanding differences with its major creditors and begin to lighten the existing debt burden.

Brazil's attraction to overseas lenders is dimmed by the knowledge that a mammoth volume of previously contracted obligations falls due in the next few years. Recently, an agreement was signed between the government and creditor commercial banks stretching \$6.7 billion of 1985 maturities at a reduced spread over a seven-year period. However, \$9.5 billion of 1986 maturities were pushed out only one year and the rest of the obligations, falling due at a rate of about \$10 billion a year during 1987-89, were not affected. By any reasonable standard, the present maturity schedule cannot be met.

First priority should be given to consolidation of debts owed to the two largest groups of creditors — commercial banks, accounting for \$67 billion of Brazil's medium-term obligations; and industrial-country official export credit and aid agen-

Table 6

Foreign direct and portfolio investment

billions of dollars

	<u>Net invest- ment*</u>	<u>Profit and dividend remittances</u>	<u>Net financial transfers</u>
1981-82 avg.	2.44	0.48	1.96
1983	1.36	0.76	0.60
1984	1.55	0.80	0.75
1985	1.25	1.06	0.19

*Includes reinvested earnings.

cies, with \$11 billion of medium-term claims. Sensible consolidation would shape a new, long-term maturity profile that financial markets can be confident Brazil will begin honoring. It would bear closer relation to prospective project completions and growth of export earnings than the original or existing maturity profile. Consolidation also could provide Brazil the opportunity to seek better pricing on older debts, some of which bear spreads close to 2% over LIBOR or prime.

Second, trade credits and interbank lines remain available to Brazil only under involuntary facilities. Foreign banks have had to renew their commitments to these facilities repeatedly during the past three years, a situation that is inconvenient for both the banks and Brazil. Normalization requires that the \$6 billion interbank facility, which the overseas branches and agencies of Brazilian banks have used to fund medium- and long-term loans to Brazil, be wound down in an orderly manner, since interbank funding should be limited to truly short-term transactions. As for the \$10 billion trade facility, participation ought to become increasingly voluntary as Brazil moves closer toward creditworthiness. It can be anticipated that trade credits will be the first to be granted and renewed voluntarily — provided they retain a reasonable relationship to the scale of Brazil's foreign trade.

Third, Brazil has yet to regain access to credit from industrial-country private suppliers or from the official export agencies represented at the Paris Club. Brazil lost its export credit cover when its payments difficulties began in 1983. It lost cover again during 1985 and early this year, when interest and amortization payments were suspended in anticipation of talks on debt relief with official creditors. All industrial-country governments remain highly

restrictive in their credit policies toward Brazil. For instance, the U.S. Export-Import Bank is authorizing no medium- or long-term direct credits or financial guarantees and offers short-term insurance only for spare parts and raw materials necessary for maintenance — not expansion — of Brazilian production. Brazil resumed official debt service in May and will pay 15% of past-due interest and principal. However, official creditors are demanding back interest in full and have made no exception to the convention that requests for principal rescheduling should be supported by the IMF. Accommodation on Brazil's existing obligations to Paris Club creditors would reopen lines of trade financing for Brazil. These are potentially significant sources of credit and should not be neglected in light of Brazil's rapidly rising imports of capital goods.

Nonetheless, while necessary steps, restructuring of Brazil's existing debt and renewing its access to official finance will do nothing to redress the disproportion between the country's \$106 billion debt and its \$31 billion in annual earnings from exports of goods and services. Brazil's 340% debt-to-exports ratio argues that the country is overindebted. It will be difficult to alter that perception until the ratio is seen to fall steadily toward the 200%-250% range. That range still must be viewed as high. However, several countries with debt ratios of the same order — for example, Colombia, Greece, and Turkey — are accepted as creditworthy.

If Brazil's current account were to stay in approximate equilibrium, and thus keep its foreign debt from growing, 8% annual growth in its dollar export earnings — 2%-3% in real terms — would lower the debt-to-exports ratio to 250% no sooner than 1990. But, for all concerned, four years is a long time. Only two

years' wait would be necessary if Europe and Japan were to spur their own economies' growth by enough to allow 11% annual gains in Brazil's dollar export earnings — a plausible 5% annual volume increase — and if, for its part, Brazil were to reduce the level of its external debt by \$10 billion.

Cutting Brazil's indebtedness below the \$100 billion mark is by no means impossible. One approach would be for the authorities to desist from the current and prospective buildup of foreign exchange reserves and instead start repaying a portion of the debt incurred years ago. This would acknowledge the reversal of fortunes since the difficult days when oil import costs jumped, international interest rates soared, and foreign borrowing bought time for the requisite economic adjustment.

Another approach would take better advantage of Brazil's huge potential attraction to foreign direct and portfolio investors. Since 1981-82, profit and dividend remittances have boomed but both fresh investment and reinvestment of earnings have fallen sharply (see Table 6). This mirrors the drop in overall domestic capital formation and has occurred for many of the same reasons. In relation to GDP, Brazil attracts half or less the foreign investment drawn to such countries as Malaysia, Portugal, and Spain. Remembering the important new-technology and export benefits associated with foreign direct investment, its decline is inimical to Brazil's objectives for faster economic growth and a stronger balance of payments. Brazil's restrictions on direct and portfolio investors are therefore overdue for review. The proposed easing of withholding taxes on dividends and capital gains remittances, and reduction of the minimum time for which portfolio capital must remain invested, are welcome

first steps.

Finally, Brazil could do well to imitate the most successful of the innovations pursued by other debt-burdened countries. Nearby Chile, a country with one-fifteenth the national income of Brazil and the host to one-tenth the foreign investment found in Brazil, is on course to reduce its foreign debt by over \$1 billion in just one year. Under its exemplary debt conversion scheme, residents and foreign investors may purchase foreign-currency-denominated debt at a discount from financial intermediaries eager to sell; the discounted paper may then be redeemed in Chile to fund new ventures and expansion projects or to pay down existing debt. External obligations are thereby extinguished without cost to official reserves, the foreign exchange coming from nonresidents' holdings abroad, or purchases in the local unofficial market.

To make significant parallel headway, Brazil would have to relax its existing restrictions on foreign capital and its unofficial exchange market. It also would have to make suitable equity investment opportunities available, for example, by embarking on an earnest attempt to privatize majority control and management of state-owned concerns. Most of these enterprises in any case need large equity infusions to diminish overindebtedness. Given the will, Brazil could set up a smoothly working debt conversion mechanism. And there is every reason to believe that a substantial lightening of the country's foreign debt burden could be achieved within a couple of years. Were that to be accomplished, together with maintenance of low inflation and significant steps to strengthen the workings of market forces throughout Brazil's economy, there would be ample justification for the present plaudits for the nation's progress.

Statistical appendix

*For key to data in tables
see June/July 1986 issue.*

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.8	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985	127.1	92.8	115.8	76.3	85.4	107.8	82.1	88.2	104.2	89.5	104.0	75.6	109.5	95.0	95.6	83.9
1985																
August	124.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September	125.2	92.1	114.9	74.0	86.3	108.6	79.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.9	91.3	123.6	71.6	87.3	109.8	80.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
November	117.0	90.3	129.5	67.9	87.6	109.9	80.2	89.7	105.2	90.5	105.6	72.8	113.4	96.5	94.8	83.3
December	116.1	88.9	129.2	67.8	88.3	111.3	80.2	88.3	105.9	90.4	106.7	72.9	112.3	97.3	94.9	83.1
1986																
January	115.1	87.9	130.1	69.1	88.8	112.5	81.0	85.3	106.4	91.1	107.6	73.0	112.1	97.6	94.8	82.7
February	111.2	87.5	138.8	66.9	89.5	113.5	81.7	82.6	106.8	91.6	108.2	73.2	114.2	98.1	95.3	82.0
March	109.0	87.3	142.3	66.5	89.6	113.8	82.0	83.1	107.1	91.7	108.5	73.8	114.0	98.3	94.7	81.9
April	108.1	88.0	144.9	67.4	86.8	114.1	81.7	85.0	107.1	92.4	108.7	73.5	114.9	98.3	94.5	81.9
May	105.8	88.4	150.9	66.5	86.5	114.5	82.0	84.9	107.0	92.6	109.1	73.6	115.8	98.7	89.8	82.0
June	106.5	87.6	151.1	63.2	86.5	114.6	82.0	84.5	107.1	92.6	109.2	73.2	117.1	98.9	87.8	81.8
July	104.0	87.8	158.6	56.4	86.3	115.8	82.8	82.2	107.5	92.7	110.3	74.0	120.2	99.1	87.3	81.4
July 18	103.8	88.2	158.8	57.4	86.2	115.8	82.8	82.1	107.4	92.6	110.2	74.3	120.0	99.2	87.1	81.6
25	103.6	87.5	160.4	56.0	86.3	116.1	83.1	80.9	107.5	92.8	110.6	74.3	121.1	99.3	87.1	81.4
August 1	102.9	87.5	161.7	54.0	86.3	116.7	83.5	79.9	107.7	93.0	111.0	74.1	122.5	99.5	86.8	81.4
8	102.4	87.5	162.1	54.3	86.6	117.2	83.6	78.7	108.0	93.2	111.5	73.8	122.4	100.5	86.8	81.2
15	102.3	87.1	161.8	54.4	86.5	117.4	83.7	79.0	107.9	93.3	111.6	74.0	122.5	100.6	86.7	81.1
22	102.0	86.7	162.1	54.5	86.3	117.6	83.8	79.1	108.1	93.4	111.7	74.2	122.6	100.3	86.7	81.1

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	100.7	99.9	104.7	102.8	99.8	97.4	98.7	102.3	99.1	100.9	97.3	99.3	98.8	99.2	101.1	102.1
1982	109.8	101.1	92.4	104.3	96.8	99.6	98.1	98.1	100.8	92.0	101.5	100.1	102.8	97.5	102.5	96.9
1983	112.8	103.9	96.8	100.2	94.4	100.5	101.0	92.8	102.1	89.1	101.1	91.2	104.2	99.2	101.6	91.9
1984	118.0	102.7	97.7	105.2	96.4	97.3	101.4	89.8	103.0	88.1	99.3	95.6	99.7	96.7	100.3	97.2
1985	120.9	99.0	96.5	88.8	99.8	96.0	99.8	92.4	103.2	87.4	97.3	97.8	97.9	98.5	99.2	98.2
1985																
August	118.1	98.7	94.2	89.2	101.5	96.5	97.9	96.2	103.7	87.3	98.0	97.5	99.4	97.6	98.2	97.2
September	117.6	99.3	95.6	87.8	101.1	96.6	98.1	96.6	103.6	87.0	97.7	97.0	98.1	98.0	100.7	97.2
October	113.9	97.1	101.4	84.8	101.8	97.3	98.8	95.1	104.1	87.1	97.8	96.1	101.5	100.4	99.8	97.2
November	112.3	96.6	105.6	80.5	101.9	97.4	98.9	95.0	104.4	87.2	97.8	96.3	101.6	100.7	100.3	97.3
December	111.9	95.0	105.2	80.9	102.1	98.3	99.4	94.0	105.8	87.0	99.0	96.8	100.5	101.8	100.3	97.2
1986																
January	109.7	95.2	105.8	83.3	101.9	99.2	100.9	91.8	107.4	87.8	99.4	99.5	99.0	100.6	100.6	97.5
February	105.0	95.6	113.1	81.9	102.6	99.9	101.1	90.0	108.5	88.0	99.9	101.2	100.6	102.2	101.4	97.1
March	101.9	96.2	116.1	82.5	102.4	100.1	101.3	91.8	108.9	88.0	100.4	103.4	101.0	103.7	101.6	96.6
April	101.0	96.7	117.5	84.5	98.7	100.2	100.9	94.9	108.9	88.6	100.3	104.1	101.4	107.2	102.2	96.4
May	99.9	95.9	121.6	84.0	97.9	100.2	100.9	95.4	109.3	88.9	100.6	104.7	101.9	108.9	97.4	96.2
June	100.8	95.1	121.4	80.6	97.4	99.9	101.3	95.3	110.1	89.1	100.5	105.2	102.7	108.9	97.7	96.0
July	97.8	95.6	127.4	73.0	96.9	100.7	102.3	93.3	110.8	89.2	101.4	107.7	105.3	111.1	98.4	95.5

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colom- bia	Mexico	Peru	Vene- zuela	Hong Kong	Indo- nesia	Korea	Malaysia	Philip- pines	Singa- pore	Taiwan	Israel	Turkey
1981	107.5	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.7	101.2	99.3	101.2	101.9	102.6	99.2	104.4
1982	76.4	112.2	96.7	104.9	81.9	103.8	109.1	102.3	110.9	103.0	104.7	105.6	99.9	96.5	107.9	95.6
1983	71.2	85.9	88.9	104.2	78.1	97.9	116.3	96.8	95.8	97.5	113.1	95.4	100.8	93.3	120.1	93.4
1984	79.9	85.7	89.9	99.4	91.6	105.7	85.6	100.4	96.8	96.1	119.3	107.6	101.5	95.6	118.8	90.9
1985	70.9	84.8	79.5	85.3	90.1	96.1	92.5	106.1	95.6	88.8	116.0	114.1	94.8	93.0	106.0	91.2
1985																
July	67.7	78.8	76.6	83.2	93.8	99.7	92.7	105.2	95.9	87.7	116.2	113.5	91.5	91.8	99.3	86.0
August	67.0	80.6	74.2	81.6	82.0	92.1	92.7	103.3	94.5	86.0	114.8	110.3	90.1	90.3	98.6	85.4
September	67.7	81.0	75.6	80.6	82.7	94.6	94.1	105.0	94.5	86.1	115.6	111.7	92.3	90.9	102.0	86.4
October	65.0	79.5	73.1	76.3	78.8	91.4	90.9	101.7	88.7	82.0	111.0	106.6	90.1	87.7	100.9	85.4
November	64.1	80.2	72.5	73.7	77.1	90.6	90.4	100.6	86.5	80.7	109.9	105.6	89.2	87.0	101.5	85.1
December	63.7	80.5	71.9	71.5	74.6	90.7	90.4	99.8	85.9	80.2	109.2	104.7	88.6	86.7	101.4	83.1
1986																
January	63.2	79.7	70.9	72.6	72.2	91.1	89.9	99.0	85.9	79.5	108.1	104.9	87.5	86.7	100.8	83.3
February	61.9	82.4	68.3	71.4	70.6	91.5	94.9	98.2	83.0	77.4	104.4	94.5	85.1	86.3	100.4	81.3
March	62.7	76.4	67.9	71.7	69.6	91.8	92.7	97.7	81.4	75.5	101.2	92.7	83.7	84.6	99.9	75.7
April	62.9	75.2	69.7	71.8	68.3	95.6	93.4	98.5	81.4	74.0	99.1	91.7	83.1	85.4	102.0	73.6
May	61.9	74.3	69.8	70.3	67.0	97.5	94.1	97.6	80.3	72.6	97.3	91.0	81.1	85.5	103.0	73.4
June	62.5	74.8	71.7	70.1	67.5	101.3	94.1	98.0	80.7	72.8	97.2	90.7	82.8	86.0	103.6	73.2

International banking market size

at end of period, billions of dollars

	1981	1982	1983r	1984	1985				1986
				Dec	Mar	Jun	Sepr	Decr	Mar
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 359	2 473	2 459	2 622	2 833	2 947
On nonbanks	557	634	665	694	722	735	761	822	854
On banks	1 372	1 512	1 588	1 665	1 751	1 724	1 861	2 011	2 093
In dollars	1 504	1 694	1 797	1 894	1 960	1 924	2 002	2 101	2 138
In other currencies	425	452	456	465	513	535	620	732	809
Domestic currencies, on nonresidents	365	398	398	402	409	422	451	506	535
On nonbanks	128	132	136	142	147	150	165	187	186
On banks	237	266	262	260	262	272	286	319	349
In dollars	188	211	217	215	208	209	205	215	203
In other currencies	177	187	181	187	201	213	246	291	332
Total	2 294	2 544	2 651	2 761	2 882	2 881	3 073	3 339	3 482
On nonbanks	685	766	801	836	869	885	926	1 009	1 040
On banks	1 609	1 778	1 850	1 925	2 013	1 996	2 147	2 330	2 442
In dollars	1 692	1 905	2 014	2 109	2 168	2 133	2 207	2 316	2 341
In other currencies	602	639	637	652	714	748	866	1 023	1 141
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 168	2 278	2 386	2 489	2 471	2 641	2 846	2 964
To nonbanks	372	432	479	497	508	520	546	585	610
To official monetary institutions	112	91	88	96	96	106	109	112	106
To other banks	1 470	1 645	1 711	1 793	1 885	1 845	1 986	2 149	2 248
In dollars	1 539	1 741	1 846	1 950	2 010	1 969	2 045	2 147	2 166
In other currencies	415	427	432	436	479	502	596	699	798
Domestic currencies, to nonresidents	263	250	260	280	293	310	341	377	394
To nonbanks	74	70	73	80	82	89	103	114	121
To banks	189	180	187	200	211	221	238	263	273
In dollars	126	116	135	146	147	154	159	169	166
In other currencies	137	134	125	134	146	156	182	208	228
Total	2 217	2 418	2 538	2 666	2 782	2 781	2 982	3 223	3 358
To nonbanks	446	502	552	577	590	609	649	699	731
To banks and official institutions	1 771	1 916	1 986	2 089	2 192	2 172	2 333	2 529	2 627
In dollars	1 665	1 857	1 981	2 096	2 157	2 123	2 204	2 316	2 332
In other currencies	552	561	557	570	625	658	778	907	1 026
Net market size	1 155	1 285	1 382	1 430	1 470	1 497	1 572	1 676	1 735

International bond issues and bank credits

millions of dollars

	1983	1984	1985	1986			Jan-Jun	
				Apr	May	Jun	1986	1985
By country of borrower								
Industrial countries	102 652	177 077	226 711	30 528	19 085	15 084	124 351	105 705
Australia	5 737	5 816	14 407	1 419	1 616	408	8 954	5 490
Austria	1 290	2 254	2 435	195	564	—	1 863	1 394
Belgium	2 166	1 847	3 269	526	338	100	2 742	1 698
Canada	8 571	13 124	17 184	2 533	914	682	8 252	9 844
Denmark	3 941	4 825	3 589	930	138	676	2 219	2 094
Finland	1 271	1 713	1 846	188	196	69	1 233	950
France	8 626	11 298	18 773	1 574	821	557	6 324	7 468
Germany	3 197	2 165	3 452	1 169	2 127	244	5 084	1 095
Greece	1 291	1 551	1 588	46	375	177	665	1 307
Ireland	1 869	1 377	1 881	317	502	80	1 343	909
Italy	4 876	6 933	11 033	1 943	1 950	987	7 111	6 946
Japan	14 428	17 526	21 269	4 059	2 253	3 166	15 190	11 370
Netherlands	1 213	1 973	2 299	326	57	67	1 591	998
New Zealand	802	3 208	2 707	1 121	521	200	3 174	1 166
Norway	1 969	1 324	3 905	537	235	590	2 001	2 097
Portugal	1 030	1 796	2 382	20	127	628	1 424	1 120
South Africa	1 300	1 422	825	—	—	—	—	740
Spain	4 977	4 931	3 913	685	331	1 073	2 580	2 789
Sweden	7 144	11 256	9 890	897	46	391	5 761	6 016
United Kingdom	2 726	8 899	25 424	2 931	1 511	1 984	12 601	10 155
United States	20 276	65 054	69 194	8 670	4 264	2 741	31 849	28 829
Other*	3 950	6 785	5 447	442	200	265	2 389	1 232
Developing countries	38 256	39 725	32 139	1 437	2 372	2 376	12 515	12 320
Latin American countries	15 592	17 464	8 115	150	255	500	1 416	1 103
Argentina	1 750	4 212	3 700	—	—	—	17	—
Brazil	4 475	6 649	—	—	—	—	—	—
Chile	1 405	784	1 085	—	—	—	—	—
Colombia	552	589	1 052	—	—	—	—	—
Mexico	5 138	3 918	109	—	50	—	50	—
Venezuela	237	—	48	—	—	—	—	—
Other**	2 035	1 312	2 121	150	205	500	1 349	1 103
Asian countries	12 978	15 893	18 410	828	1 357	776	7 857	7 817
India	968	945	818	—	9	30	650	298
Indonesia	2 363	1 924	451	27	—	—	983	424
Korea	4 387	6 201	5 898	174	492	249	2 049	3 282
Malaysia	2 197	2 605	2 220	—	154	—	208	1 053
Philippines	878	925	925	—	—	—	—	925
Thailand	747	1 221	1 497	—	406	—	1 016	716
Other	1 438	2 072	6 602	628	297	497	2 952	1 120
Middle Eastern and African countries	9 686	6 368	5 614	459	760	1 100	3 242	3 400
Algeria	1 993	821	1 450	—	—	390	797	1 300
Nigeria	2 343	985	—	—	—	—	—	—
Turkey	1 106	741	1 203	459	150	60	972	604
Other	4 244	3 821	2 960	—	610	650	1 473	1 497
Eastern European countries	1 294	3 244	5 236	360	548	300	2 219	2 323
Hungary	741	1 386	1 578	210	—	300	821	688
Soviet Union	93	1 051	1 489	150	548	—	1 248	891
Other***	460	807	2 169	—	—	—	150	744
International organizations****	16 201	13 287	20 635	899	1 138	794	8 513	10 254
By type of instrument and currency								
International bond issues	76 329	107 411	167 756	26 116	14 541	13 294	105 735	82 918
Eurobonds	48 501	79 458	136 731	22 051	13 034	11 645	87 742	69 547
U.S. dollar	38 428	63 593	97 782	12 032	8 607	7 910	53 988	54 000
German mark	3 817	4 604	9 491	1 698	1 990	1 003	8 592	3 683
British pound	1 947	3 997	5 766	2 412	307	543	5 965	2 416
Japanese yen	212	1 212	6 539	1 579	961	653	7 338	1 867
European composite units	2 019	3 032	7 038	1 729	375	563	3 995	3 318
Other	2 078	3 020	10 114	2 602	794	974	7 864	4 263
Foreign bonds	27 828	27 953	31 025	4 065	1 507	1 649	17 993	13 371
U.S. dollar	4 545	5 487	4 655	400	—	—	2 364	2 157
German mark	2 671	2 243	1 741	—	—	—	—	800
British pound	811	1 292	958	—	77	—	186	291
Swiss franc	14 299	12 626	14 954	3 116	911	1 187	10 942	5 977
Japanese yen	3 772	4 628	6 379	309	123	314	3 137	3 169
Other	1 730	1 677	2 339	239	396	148	1 364	977
International bank credits	82 074	125 922	116 964	7 109	8 603	5 259	41 864	47 885
Eurocurrency credits	74 222	112 605	110 317	6 653	8 114	4 950	39 146	44 406
Foreign credits	7 852	13 317	6 648	456	489	310	2 718	3 279
Total	158 403	233 333	284 720	33 224	23 144	18 554	147 599	130 803

*Includes multinational organizations.

**Includes unallocated.

***Includes COMECON institutions.

****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1983	1984	1985	1986						
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Eurodollar										
overnight	9.50	8.63	12.25	7.88	7.81	7.63	6.88	6.81	8.25	6.25
one month	9.69	8.38	8.00	7.94	7.81	7.38	6.81	7.00	6.88	6.38
three months	9.81	8.63	7.88	7.94	7.75	7.31	6.75	7.00	6.75	6.38
six months	10.06	9.13	7.88	8.00	7.69	7.25	6.75	7.06	6.75	6.38
twelve months	10.38	9.81	7.94	8.13	7.75	7.25	6.81	7.25	6.81	6.50
Euro-Canadian dollar										
one month	9.13	9.88	9.00	10.69	12.88	10.75	8.38	8.38	8.06	8.06
three months	9.50	10.81	9.00	10.69	11.69	10.44	8.69	8.44	8.38	8.31
six months	9.75	10.06	9.00	10.44	10.94	9.88	8.69	8.50	8.56	8.50
twelve months	10.00	10.44	9.00	10.31	10.31	9.75	8.69	8.75	8.75	8.75
Euro-French franc										
one month	12.13	10.69	12.50	15.00	14.50	15.00	7.75	7.81	7.25	7.13
three months	12.19	10.69	13.00	16.25	14.00	12.25	7.50	7.31	7.31	7.19
six months	12.31	11.00	13.13	13.75	12.50	11.00	7.50	7.31	7.31	7.25
twelve months	12.63	11.38	12.25	12.75	10.75	10.00	7.38	7.50	7.38	7.31
Euromark										
one month	5.25	5.50	4.75	4.56	4.56	4.44	4.56	4.56	4.44	4.63
three months	5.88	5.50	4.75	4.57	4.44	4.44	4.50	4.56	4.50	4.56
six months	6.13	5.56	4.75	4.57	4.38	4.44	4.44	4.63	4.56	4.56
twelve months	6.38	5.56	4.81	4.63	4.38	4.44	4.44	4.75	4.63	4.63
Euro-Dutch guilder										
one month	5.81	5.69	5.75	5.69	5.81	5.50	5.75	6.13	6.25	5.56
three months	6.00	5.75	5.75	5.69	5.81	5.44	5.50	5.81	6.06	5.44
six months	6.25	5.81	5.81	5.69	5.75	5.44	5.38	5.63	5.81	5.38
twelve months	6.38	5.94	5.88	5.75	5.75	5.44	5.31	5.63	5.75	5.38
Euro-Swiss franc										
one month	3.98	4.44	3.88	4.06	3.75	4.00	4.13	4.88	5.00	4.63
three months	3.75	4.56	4.00	4.06	3.75	3.94	4.13	4.69	5.06	4.63
six months	3.94	4.63	4.00	4.06	3.75	3.81	4.06	4.56	4.88	4.63
twelve months	3.94	4.69	4.06	4.13	3.81	3.75	3.94	4.44	4.75	4.63
Eurosterling										
one month	9.13	9.50	11.69	12.75	12.56	11.75	10.81	10.00	10.06	9.94
three months	9.31	9.88	11.81	12.81	12.31	11.31	10.38	9.81	9.81	9.94
six months	9.50	10.00	11.81	12.75	12.00	10.56	9.81	9.69	9.69	9.88
twelve months	9.81	10.19	11.69	12.63	11.69	10.25	9.50	9.44	9.63	9.94
Euroyen										
one month	6.25	6.19	7.13	6.38	6.50	5.56	4.94	4.75	4.69	4.75
three months	6.31	6.19	6.56	6.13	5.88	5.25	4.81	4.75	4.88	4.75
six months	6.38	6.13	6.50	6.06	6.56	5.13	4.69	4.81	4.63	4.69
twelve months	6.44	6.13	6.38	6.00	6.56	5.06	4.69	4.88	4.63	4.69
European currency unit										
one month	8.81	9.25	9.63	10.63	9.94	10.06	7.94	7.31	7.38	7.25
three months	9.19	9.38	9.63	10.13	9.88	9.50	7.56	7.31	7.31	7.19
six months	9.44	9.50	9.63	9.75	9.44	8.50	7.38	7.31	7.25	7.19
twelve months	9.63	9.63	9.63	9.13	9.06	8.06	7.19	7.13	7.25	7.13

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1983	1984	1985	1986						
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States companies										
Eurodollar	11.59	11.25	9.68	9.60	9.27	8.78	8.93	9.27	9.09	8.97
Euromark	7.34	6.95	6.73	6.73	6.61	6.67	6.62	6.74	6.65	6.55
Swiss franc	5.83	5.73	5.49	5.47	5.52	5.63	5.65	5.62	5.63	5.56
European governments										
Eurodollar	12.65	12.04	10.52	10.59	10.36	9.98	9.86	10.18	10.00	9.97
Euromark	8.12	7.39	7.03	6.95	6.81	6.77	6.82	6.92	6.95	6.81
Swiss franc	5.63	5.24	4.91	4.82	4.71	4.71	4.69	4.69	4.76	4.73
European currency unit	11.77	10.64	10.23	10.26	10.44	10.35	10.18	10.20	10.31	10.02

Central bank discount rates

at or near end of month

	1983	1984	1985	1986					Current	
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug 21 1986	effective since
United States	8.50	8.00	7.50	7.00	6.50	6.50	6.50	6.00	5.50	Aug 21, 86
Canada	9.96	10.09	9.49	10.44	9.27	8.58	8.84	8.51	8.58	Aug 21, 86
Austria	3.75	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	10.00	11.00	9.75	9.75	8.75	8.00	8.00	8.00	8.00	May 29, 86
Denmark	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.50	9.50	9.00	8.00	8.00	7.00	7.00	7.00	7.00	May 19, 86
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	4.00	4.50	4.00	3.50	3.50	3.50	3.50	3.50	3.50	Mar 7, 86
Ireland	12.25	14.00	10.25	13.75	12.50	11.00	10.00	10.00	10.00	Jun 18, 86
Italy	17.00	16.50	15.00	14.00	13.00	12.00	12.00	12.00	12.00	May 27, 86
Netherlands	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	Mar 7, 86
Norway	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	25.00	25.00	19.00	19.00	17.50	17.50	14.50	14.50	14.50	Jun 30, 86
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	8.50	9.50	10.50	8.50	8.00	8.00	8.00	8.00	8.00	Apr 18, 86
Switzerland	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	9.00	9.38	11.31	11.31	10.31	9.81	9.81	9.81	9.81	May 21, 86
Japan	5.00	5.00	5.00	4.00	3.50	3.50	3.50	3.50	3.50	Apr 21, 86
New Zealand	7.50	13.50	19.80	22.20	21.00	16.70	16.20	16.60	16.40	Aug 19, 86
South Africa	18.50	21.75	13.50	12.50	12.50	11.50	11.50	11.50	11.00	Aug 5, 86
Argentina*	15.10	18.19	5.00	6.69	6.18	6.18	6.20	6.68	6.20	Jun 19, 86
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	7.00	7.00	Jul 10, 86
Philippines	8.05	12.11	11.50	10.52	11.02	n.a.	n.a.	n.a.	n.a.	Apr, 86
Singapore	7.00	6.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	13.00	12.00	11.00	10.00	10.00	10.00	10.00	9.00	9.00	Jul 8, 86
Venezuela	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	Mar, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	8.95	9.47	8.38	8.27	8.14	7.85	7.48	6.98	6.85	6.91	6.55
Canada	10.63	8.78	10.50	9.23	9.94	11.47	11.10	9.58	8.41	8.19	8.38
Austria	6.00	5.75	7.63	7.25	6.13	6.25	5.00	4.75	4.88	4.88	5.13
Belgium	9.29	7.39	9.12	6.60	8.10	8.47	7.20	8.67	6.49	5.37	6.33
Finland	11.50	16.70	15.07	11.96	11.64	11.40	11.21	11.20	12.02	10.83	10.80
France	12.88	12.27	10.95	9.01	8.83	8.77	8.52	8.18	7.38	7.24	7.28
Germany	6.15	5.61	5.62	4.64	4.58	4.59	4.90	4.76	4.30	4.40	4.61
Ireland	14.54	12.19	14.50	9.62	12.00	14.38	14.75	12.63	10.50	9.50	9.63
Italy	19.00	17.88	17.25	14.75	15.15	16.57	17.15	15.02	13.06	12.34	12.11
Netherlands	5.31	5.84	5.60	5.75	5.75	6.01	5.72	5.49	6.69	6.06	6.13
Norway	11.00	12.30	12.50	12.40	13.00	13.20	13.20	13.50	17.00	14.00	14.00
Spain	20.30	16.98	12.18	9.92	8.50	10.54	11.25	12.20	12.04	12.03	12.26
Sweden	9.31	11.52	11.88	11.83	13.00	11.10	10.83	11.58	11.33	10.00	10.00
Switzerland	1.25	1.88	1.50	2.00	2.00	1.75	2.25	2.25	2.00	1.75	2.25
United Kingdom	6.70	7.78	6.31	9.72	11.59	11.16	12.09	8.96	8.55	10.53	8.98
Australia	10.87	4.55	10.98	18.37	18.32	18.16	16.74	15.06	12.31	13.20	13.85
Japan	6.92	6.44	6.41	8.02	6.84	5.78	5.53	4.70	4.21	4.40	4.47
South Africa	14.15	16.06	21.13	12.50	12.00	11.25	11.75	12.00	10.63	10.69	10.75
Argentina*	12.77	14.65	17.75	4.50	4.50	4.50	4.50	4.50	4.50	5.00	5.00
Brazil	150.42	184.69	272.02	352.23	541.33	376.24	15.12	16.64	15.50	18.30	25.93
Hong Kong	9.13	13.90	6.80	6.10	5.93	6.63	6.48	7.81	6.02	6.91	5.95
Korea	13.84	11.40	10.00	8.80	8.50	9.40	9.70	11.00	10.30	10.00	10.60
Philippines	16.12	31.18	15.22	15.03	11.72	21.08	17.83	15.62	12.43	n.a.	n.a.
Singapore	11.45	7.05	6.01	4.53	4.84	5.75	4.85	4.82	5.07	4.49	3.73
Taiwan	9.94	7.65	8.07	4.50	4.25	5.25	3.54	3.75	3.50	4.53	3.50

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	8.15	9.28	7.99	7.25	7.15	7.23	6.50	6.24	6.45	6.13	5.93
Canada	9.80	9.71	9.84	9.24	10.55	11.55	10.19	9.02	8.33	8.59	8.36
Belgium	12.42	11.00	10.90	9.89	9.89	9.89	9.89	8.36	7.71	7.45	7.45
Ireland	15.25	12.01	15.10	11.15	14.32	15.02	12.08	9.69	8.76	9.16	10.13
Italy	19.11	16.95	14.69	13.10	13.73	13.59	13.15	12.39	11.23	10.78	10.71
Netherlands	5.63	5.63	5.88	5.69	5.72	6.13	5.56	6.88	6.50	5.88	5.75
Spain	15.28	14.46	12.00	9.25	9.25	9.25	9.25	9.25	n.t.	n.t.	n.t.
Sweden	12.90	11.75	11.83	12.49	11.70	11.14	10.63	10.19	9.90	9.85	9.29
United Kingdom	9.96	9.04	9.33	11.49	12.47	12.21	11.04	10.09	9.56	9.52	9.76
Australia	9.39	8.54	12.27	19.40	18.46	17.03	14.88	12.84	12.78	12.38	14.98
Japan	5.42	4.91	4.91	4.91	4.91	4.41	3.90	3.39	3.39	3.39	3.39
New Zealand	11.25	7.80	13.50	17.62	18.27	18.48	21.64	20.41	17.34	15.64	16.75
South Africa	14.62	18.43	21.94	12.99	12.02	11.96	11.97	11.58	11.02	10.75	10.22
Brazil	115.40	179.15	273.03	379.77	n.t.	n.t.	15.40	16.79	15.90	18.60	26.30
Mexico	57.44	53.78	48.67	72.98	74.89	77.75	78.78	80.84	80.74	88.50	n.t.
Philippines	14.54	15.99	47.14	16.45	16.68	23.43	23.56	19.65	15.79	n.a.	n.a.
Singapore	2.74	2.59	2.91	2.94	2.96	2.80	2.64	2.58	2.35	2.42	2.54

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	8.94	9.89	8.34	8.01	7.91	7.80	7.34	7.17	6.96	6.75	6.52
Canada	9.95	9.87	10.10	9.45	11.25	12.05	10.80	8.85	8.65	8.65	8.55
Belgium	12.52	11.15	10.85	9.89	9.89	9.89	8.52	8.11	7.71	7.40	7.40
France	12.75	12.19	10.69	9.12	8.93	8.57	8.37	7.50	7.24	7.24	7.13
Germany	6.20	6.30	5.75	4.80	4.60	4.35	4.65	4.60	4.60	4.55	4.65
Ireland	15.75	12.19	15.13	12.00	15.25	16.25	14.63	10.75	10.25	9.25	10.75
Italy	19.00	17.88	16.88	15.13	16.00	16.75	15.00	12.75	12.13	12.25	11.38
Netherlands	5.25	6.00	5.75	5.75	5.81	5.88	5.50	5.56	6.00	6.19	5.56
Portugal	15.05	24.11	24.57	20.71	18.28	18.55	18.75	17.76	17.07	n.a.	n.a.
Spain	16.98	19.00	12.21	10.51	10.68	10.72	11.59	12.27	11.63	12.06	12.51
Switzerland	3.88	3.88	5.00	4.75	4.43	4.13	4.06	4.50	4.69	5.50	4.88
United Kingdom	10.50	9.31	9.88	12.75	12.75	12.25	11.06	10.13	9.69	9.75	9.88
Australia	9.85	9.05	12.90	19.75	18.75	18.00	16.20	16.10	14.85	14.80	15.10
Japan	6.96	6.45	6.33	7.03	6.12	5.92	5.16	4.53	4.66	4.64	4.65
New Zealand	16.50	11.75	15.00	20.00	23.50	23.50	22.30	21.30	16.10	17.10	16.80
South Africa	15.26	19.12	22.78	13.35	12.55	12.40	12.35	11.95	11.25	10.80	10.55
Chile	55.90	20.68	20.68	22.42	19.56	19.56	14.03	19.56	12.68	14.03	15.39
Hong Kong	9.25	14.88	8.25	6.50	6.63	6.81	7.25	7.81	6.02	6.75	6.31
Indonesia	18.50	19.50	19.00	15.00	14.50	14.50	20.25	16.50	16.00	15.00	15.00
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.50	9.80	10.30	8.20	8.30	8.70	8.75	15.00	9.80	10.00	9.80
Philippines	15.96	15.61	33.21	14.61	23.05	26.05	26.45	19.32	14.57	n.a.	n.a.
Singapore	8.69	8.44	7.00	5.88	5.53	5.31	5.00	4.94	5.06	4.88	4.31
Taiwan	n.a.	8.07	7.85	4.10	3.17	3.10	3.37	3.99	3.58	3.68	3.27
Thailand	12.25	16.00	12.00	15.50	11.50	11.25	10.00	10.00	9.50	8.50	8.00

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	8.25	9.70	8.35	7.75	7.75	7.60	7.16	6.55	6.82	6.65	6.33
Canada	9.85	9.82	10.05	9.40	11.20	12.00	10.75	8.80	8.60	8.60	3.50
Austria	6.25	6.50	7.50	6.50	6.25	6.38	5.50	4.88	5.19	5.13	5.13
Belgium	12.25	11.25	10.63	9.63	9.88	9.75	9.63	8.13	7.31	7.19	7.25
Denmark	9.00	6.00	6.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00
Finland	4.25	5.25	5.25	4.75	4.25	4.25	3.75	3.75	2.75	2.75	2.75
France	8.24	7.66	7.04	6.12	6.03	6.02	5.98	5.72	4.50	4.50	4.50
Germany	6.00	5.90	5.25	4.40	4.25	4.25	4.15	4.35	4.35	4.35	4.45
Ireland	15.25	11.75	14.63	11.87	15.25	16.00	14.50	10.75	10.00	9.00	10.00
Italy	13.25	13.25	11.64	11.85	11.75	11.75	11.75	n.a.	n.a.	n.a.	n.a.
Netherlands	5.38	6.13	5.69	5.81	5.69	5.75	5.38	5.44	5.88	6.06	5.44
Norway	13.50	12.75	12.75	12.00	12.25	12.25	12.25	12.25	12.25	13.00	13.00
Portugal	15.00	21.50	28.00	20.00	20.00	20.00	20.00	18.50	18.50	15.50	n.a.
Spain	12.53	12.62	11.64	9.64	9.61	9.59	9.11	9.42	9.20	9.04	n.a.
Sweden	12.15	11.70	11.45	12.18	12.45	11.45	11.00	10.85	10.60	10.10	9.80
Switzerland	3.00	3.50	4.50	4.50	4.25	3.94	3.81	4.25	4.44	5.25	4.63
United Kingdom	10.31	9.31	9.88	11.75	12.75	12.13	11.06	10.13	9.69	9.63	9.88
Australia	10.20	10.40	12.75	18.80	18.63	17.95	16.13	14.68	14.21	14.00	14.60
Japan	7.00	6.40	6.38	7.05	6.24	6.10	5.32	4.80	4.90	4.65	4.70
New Zealand	16.50	11.75	15.25	19.98	22.99	23.55	20.56	20.16	16.42	n.a.	n.a.
South Africa	15.25	20.13	22.88	13.20	12.70	12.65	12.60	12.00	11.40	11.00	10.80
Argentina*	8.50	14.50	31.23	5.40	5.40	4.75	4.50	4.34	4.25	4.28	4.48
Brazil	21.00	23.00	27.00	18.00	18.00	18.50	21.00	21.50	26.00	29.00	30.00
Chile	47.09	20.57	20.68	23.60	22.27	23.60	16.30	19.98	13.62	15.94	16.49
Hong Kong	9.25	14.88	8.25	6.50	6.63	6.81	7.25	7.81	6.02	6.75	6.31
Korea	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	8.40	7.75	9.58	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Mexico	52.54	57.15	47.45	72.90	73.50	75.75	79.55	80.20	80.00	85.50	n.a.
Philippines	14.10	14.96	31.01	12.34	11.66	13.24	14.17	12.37	14.63	n.a.	n.a.
Singapore	8.25	7.44	6.13	5.26	5.01	5.01	4.94	4.76	4.94	4.82	4.26
Taiwan	7.50	7.00	6.50	5.25	5.25	5.75	4.75	4.50	4.50	4.50	4.50
Thailand	10.00	10.00	13.00	10.50	10.50	11.00	10.50	8.50	8.50	8.50	7.50
Venezuela	15.50	12.00	12.50	8.00	8.00	8.00	8.00	8.00	8.00	9.00	9.00

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	10.61	12.00	11.61	9.49	9.45	8.31	7.50	7.70	8.37	7.79	7.88
Canada	11.69	12.02	11.66	10.04	10.49	9.96	9.54	9.32	9.52	9.42	9.36
Austria	8.81	8.02	8.04	7.61	7.62	7.68	7.63	9.00	7.14	7.19	7.20
Belgium	12.66	11.89	11.56	9.60	9.62	9.38	8.41	7.46	7.93	7.86	7.47
Denmark	20.14	12.96	14.60	9.67	10.12	9.27	9.26	8.63	10.17	10.17	10.64
Finland	10.64	11.16	10.73	10.58	9.74	9.96	8.77	8.89	8.27	8.27	8.25
France	15.40	13.96	12.70	11.33	10.79	10.00	9.19	8.53	8.58	8.65	7.64
Germany	7.90	8.38	7.17	6.57	6.64	6.32	6.21	5.78	6.31	6.17	6.07
Ireland	14.54	14.25	14.90	11.84	11.92	10.68	9.35	8.57	9.17	9.31	10.33
Italy	19.70	17.69	14.52	13.66	13.43	13.80	13.35	12.27	10.87	10.85	11.07
Netherlands	8.16	8.58	7.72	6.96	6.81	6.84	6.44	6.15	6.39	6.38	6.22
Norway	13.32	12.50	12.00	13.10	13.10	13.20	12.80	12.80	12.80	13.10	13.42
Portugal	16.63	22.11	22.23	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	15.46	17.25	13.93	12.30	12.35	12.36	12.22	12.06	11.44	10.96	11.52
Sweden	13.01	12.30	12.04	12.11	12.23	11.60	10.81	9.81	10.06	9.79	9.76
Switzerland	4.23	4.53	4.60	4.42	4.42	4.27	4.16	4.24	4.39	4.49	4.39
United Kingdom	10.62	9.94	10.25	10.35	10.56	9.83	8.75	8.73	9.11	9.32	9.45
Australia	13.00	13.65	13.50	14.85	14.10	13.70	12.60	12.25	12.65	12.95	14.02
Japan	7.96	7.45	6.47	5.92	5.57	5.33	4.67	4.79	5.57	4.90	4.83
New Zealand	12.84	10.50	16.90	17.00	18.75	18.30	18.90	16.80	15.50	15.20	16.24
South Africa	11.31	13.64	16.55	18.09	17.57	17.30	17.65	17.40	17.09	16.99	16.00
Philippines	13.64	14.47	18.54	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.a.	n.a.
Venezuela	15.00	13.50	14.00	12.00	12.25	12.00	12.00	12.00	12.00	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	11.50	11.00	10.75	9.50	9.50	9.50	9.00	8.50	8.50	8.50	8.00
Canada	12.50	11.00	11.25	10.00	11.50	13.00	12.00	11.25	10.25	10.25	9.75
Austria	11.75	9.25	9.25	9.00	9.00	9.25	9.25	9.25	9.25	9.00	9.00
Belgium	15.50	13.75	14.00	11.50	12.25	12.25	11.50	10.50	10.50	9.75	9.75
Denmark	14.00	10.00	10.50	8.50	8.50	8.50	7.50	7.50	7.50	7.50	7.50
Finland	8.95	10.18	10.68	10.37	9.90	9.90	9.49	9.49	8.78	8.82	n.a.
France	12.25	12.25	12.00	10.60	10.60	10.60	10.60	10.10	9.60	9.60	9.60
Germany	8.75	7.75	7.75	7.25	7.25	7.25	6.75	6.75	6.75	6.75	6.75
Ireland	16.50	13.75	15.75	12.50	14.50	17.50	17.50	14.50	13.50	12.25	12.25
Italy	20.75	18.75	18.00	15.88	15.88	16.00	16.00	15.25	14.50	13.50	13.50
Netherlands	6.25	7.00	6.25	6.25	6.25	6.38	6.00	6.00	7.00	6.75	6.50
Norway	14.50	13.50	13.00	12.40	13.50	14.00	13.75	13.75	14.75	15.50	15.25
Portugal	23.50	30.00	29.00	22.50	22.50	22.50	22.50	21.00	21.00	18.00	n.a.
Spain	16.90	17.31	15.84	14.75	14.66	14.58	14.58	14.52	14.50	14.44	14.37
Sweden	15.00	13.50	14.50	15.05	14.00	14.00	13.00	12.75	12.75	12.75	12.75
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.75	5.75
United Kingdom	10.00	9.00	9.50	11.50	12.50	12.50	11.50	10.50	10.00	10.00	10.00
Australia	16.00	12.75	14.00	21.00	20.60	20.50	19.75	19.00	18.25	18.00	17.00
Japan	6.28	5.89	5.70	5.71	5.70	5.64	5.42	5.18	5.04	4.95	4.71
New Zealand	13.00	11.00	14.00	21.00	21.00	20.00	21.00	22.00	21.00	18.00	17.00
South Africa	18.00	20.00	24.00	16.50	15.50	15.50	15.50	15.50	14.50	14.50	14.50
Argentina*	9.00	15.50	32.05	7.30	7.00	6.40	5.25	4.80	5.52	5.35	5.57
Brazil	23.81	24.00	31.00	19.00	19.00	19.50	21.00	22.50	26.00	29.00	32.00
Chile	64.11	30.90	60.82	33.34	33.46	38.07	31.76	31.99	30.60	29.38	28.77
Hong Kong	10.50	13.50	11.00	7.00	7.00	7.00	8.00	8.00	7.50	7.50	7.50
Indonesia	22.00	19.75	23.50	18.75	18.50	20.00	20.00	19.50	19.00	19.00	18.75
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.50	11.00	12.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Mexico	46.12	56.44	47.54	65.66	68.55	70.30	71.79	73.48	75.02	76.97	81.36
Philippines	18.00	18.00	44.00	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.a.	n.a.
Singapore	9.33	8.98	9.40	7.20	7.20	7.20	7.18	7.15	7.15	7.15	7.05
Taiwan	10.75	10.25	10.00	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00
Thailand	16.00	16.00	16.50	15.50	15.50	15.50	14.00	14.00	14.00	14.00	13.00
Venezuela	17.00	16.00	16.00	13.00	13.00	13.00	13.00	13.00	13.00	14.00	14.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985	1986						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	11.75	12.63	12.25	10.15	10.38	9.00	8.63	9.00	9.20	9.00	9.25
Canada	12.74	12.89	12.42	10.74	12.08	12.95	12.46	12.24	10.35	10.10	10.19
France	15.86	14.35	12.94	11.76	11.38	10.81	10.13	9.82	9.44	9.85	8.36
Germany	8.20	8.30	7.20	6.90	6.80	6.80	6.70	6.60	6.40	6.50	6.60
Netherlands	7.80	8.51	7.51	n.t.	n.t.	6.86	6.53	n.t.	n.t.	n.t.	n.t.
Norway	14.13	13.25	12.75	14.00	14.00	14.00	14.00	14.00	14.00	14.25	14.90
Spain	17.10	20.07	18.32	14.92	14.87	14.82	14.40	13.91	13.99	13.71	13.22
Sweden	13.37	12.21	12.33	13.25	13.21	12.73	11.99	10.93	11.20	11.04	10.88
Switzerland	5.80	4.92	5.09	4.93	4.78	4.71	4.64	4.96	4.77	4.83	4.84
United Kingdom	12.34	11.57	11.64	11.47	11.59	10.88	9.96	9.80	10.05	10.32	10.49
Japan	7.55	7.09	6.21	6.90	6.70	5.96	5.40	5.14	5.20	5.14	4.74
Korea	16.00	14.20	15.00	13.60	13.00	12.60	12.40	12.40	12.80	12.80	12.90
Venezuela	18.00	18.00	18.00	17.00	17.50	17.00	17.00	17.00	17.00	17.00	17.00

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Table 1

Real GDP growth percent per annum

	1984	1985	1986
Argentina	2.5	-4.4	3.5
Brazil	4.5	8.3	7.0
Chile	6.3	2.4	4.0
Colombia	3.2	2.9	4.5
Mexico	3.7	2.7	-3.0
Venezuela	-1.4	-0.4	-1.0
Indonesia	5.8	1.0	-3.0
Korea	8.4	5.1	8.0
Philippines	-5.2	-4.0	0.0
Nigeria	-0.6	0.0	-6.0

LDC debt: debt relief or market solutions?*

As interest rates and oil prices tumbled last winter, hopes soared for solid noninflationary growth of the U.S. economy. The disappointing actual performance has set off a search for scapegoats. The favorite villain is the still-widening U.S. trade deficit, including the \$55 billion annual-rate imbalance in trade with developing countries to date this year. In the popular mind, the imbalance is intertwined with Mexico's much-publicized economic and financial troubles, which are focusing renewed attention on certain aspects of the LDC debt strategy. Although intertwined, both the U.S. trade and the LDC debt problems are complex in origin, ramifications, and possible solution. Yet the idea has taken hold among some in the U.S. Congress that political initiative can slice through this Gordian knot, solving both trade and debt problems at a stroke.

Skeptics argue that last year's twin Baker initiatives already have failed and that trade and debt problems have grown so intractable as to require a new, more "realistic" approach. Realism on debt, they assert, entails not merely the provision of fresh credits to the debtor countries but also the alleviation of their existing debt loads through manda-

tory interest and principal concessions. Supposedly, "debt relief" would be limited to those debtors committing themselves to reforms in the interest of faster economic growth; relief also would enable them to step up their purchases of U.S. exports, contributing to reduction of the U.S. trade deficit.

Debt relief advocates grossly misread the nature of markets, demanding in essence that water flow uphill. Moreover, their case mistakenly generalizes from Mexico's unique situation: this year's nearly 50% drop in oil prices directly subtracts about 4% from Mexico's national income, cuts its public revenues by one sixth, and adds to its debt load as the current account balance relapses into deficit and anxious investors hold back. But, by the same token, the drop in oil prices is a substantial help to such oil-importing LDCs as Korea, Brazil, Chile, and the Philippines. And all LDC debtors are benefiting from the much lower level of international interest rates bred, at least in part, by the drop in oil prices.

Advocates of debt relief ignore the important progress that has

*Based on remarks by Rimmer de Vries, Senior Vice President, Morgan Guaranty Trust Company, on August 28, 1986, to a Symposium on Debt, Financial Stability and Public Policy sponsored by the Federal Reserve Bank of Kansas City.

Table 2

Consumer prices

percent change from previous year

	Dec 1983	Dec 1984	Dec 1985	Latest 1986
Argentina	434	688	385	59
Brazil	164	209	234	139
Chile	23	23	26	17
Colombia	17	18	23	16
Mexico	81	59	64	92
Venezuela	7	18	9	11
Indonesia	12	9	4	4
Korea	2	2	3	2
Philippines	26	51	6	0
Nigeria	39	23	1	-2

Table 3

Trade balances

billions of dollars

	Average 1981-82	1984	1985	1986
Argentina	1.7	4.0	4.8	3.7
Brazil	1.0	13.1	12.5	13.0
Chile	-1.3	0.3	0.8	0.9
Colombia	-1.9	-0.6	-0.0	0.7
Mexico	1.1	12.9	8.4	4.0
Venezuela	5.3	8.6	7.3	1.7
Indonesia	4.3	5.5	5.9	1.9
Korea	-3.1	-1.0	-0.0	2.0
Philippines	-2.4	-0.7	-0.5	-0.2
Nigeria	-1.8	3.0	4.4	0.4
Total for 10	2.9	45.1	43.5	28.1

Table 4

Current account balances

billions of dollars

	Average 1981-82	1984	1985	1986
Argentina	-3.5	-2.5	-1.0	-1.6
Brazil	-14.0	0.0	-0.3	1.5
Chile	-3.5	-2.1	-1.3	-1.0
Colombia	-2.5	-2.3	-1.4	-0.4
Mexico	-9.4	4.2	0.5	-1.8
Venezuela	-0.1	4.5	3.1	-2.0
Indonesia	-2.9	-2.1	-1.6	-5.2
Korea	-3.6	-1.4	-0.9	1.7
Philippines	-2.7	-1.3	0.0	0.4
Nigeria	-6.7	0.1	1.3	-2.3
Total for 10	-49.1	-2.7	-1.6	-10.6

been made on the LDC debt scene taken as a whole. Among the major borrowers, top honors go to Korea, whose real GDP growth this year should be around 8%, with inflation under 3% and a current account balance in distinct surplus (see Tables 1-4). The transformation of Korea's economic fortunes is so well recognized by now that it takes some effort to recall that just three years ago there were those who thought the country headed for trouble. The key to that transformation was timely and effective demand management, complementing hard work, growing technological sophistication, and dedication to outward-oriented development seeking out the discipline and opportunities of the world marketplace. As a result, Korea has realized per capita income gains cumulating to 34% since 1980.

Brazil has staged an impressive comeback from the recession it endured following the debt crisis. Most of the broad indicators of its macroeconomic performance now are favorable. Thus, its economic growth hit 8% last year and will be only a little lower in 1986. Even if some further slowing is needed in 1987 to sustain the Cruzado Plan's counterinflationary breakthrough, Brazil will have achieved substantial per capita income gains four years in a row. At the same time, Brazil's current account is headed for a surplus approaching \$2 billion this year and a like amount in 1987. Its exports will have grown at an average annual rate of 8% during 1984-87. With external debt climbing only little, Brazil's debt-export ratio should be just a bit above 300% by the end of 1987 — the lowest since before the crisis. Interest payments may absorb only 20% of Brazil's export earnings next year, half the burden of 1983 (see Tables 5 and 6). Provided Brazil sustains its economic progress, it should be able to re-

store access to voluntary credit markets in the not-too-distant future.

Others of the debtor countries face a longer and still-difficult road. Yet, almost all are working in a co-operative, rather than confrontational way, to help themselves toward improved economic and financial performance. Moreover, with the examples of Korea and some of the other successful Asian exporters for encouragement, there is growing appreciation in many of the debtor countries of the need for domestic reforms to render their economies competitive in the global marketplace. The climate for progress now is more promising than for many years, with particularly noteworthy shifts in attitude apparent in Argentina and the Philippines.

Recognition of the positive accomplishments of the last four years does not deny that LDC debt problems will continue a great deal longer than originally supposed. Certainly, that is the case in terms of what was and remains the ultimate objective — LDC economic growth and the normalization of their access to the international financial markets. However, it does not follow that the strategy pursued hitherto must be discarded lock, stock, and barrel.

Rather, the sensible approach lies in flexible pursuit of the existing strategy, preserving the good and necessary features of what already is being done, and modifying them or introducing new features when necessary to cope with changing circumstances. Constructive *initiatives* are always worth exploring on their merits. What must be rejected, as both unnecessary and unworkable, is a politically imposed *plan* that purports to solve the needs of debtor countries regardless of circumstances, as well as solve U.S. trade problems.

The complexity and global ramifications of the LDC debt problems

Table 5

External debt*

as percent of exports of goods and services

	1983	1985	1986
Argentina	454	474	537
Brazil	366	352	350
Chile	377	428	427
Colombia	261	242	206
Mexico	316	325	420
Venezuela	216	217	333
Indonesia	145	175	259
Korea	136	144	135
Philippines	295	319	313
Nigeria	166	153	261

*Average of debt at beginning and end of year.

Table 6

Interest payments on external debt

as percent of exports of goods and services

	1983	1985	1986
Argentina	55	51	46
Brazil	42	38	29
Chile	37	42	33
Colombia	24	23	15
Mexico	35	33	35
Venezuela	20	21	26
Indonesia	9	12	17
Korea	11	12	9
Philippines	24	27	24
Nigeria	9	9	14

Table 7

Real effective exchange rates

index numbers, 1980-82=100

	1984	1985	Aug 1986
Argentina	80	71	61
Brazil	86	85	73
Chile	90	80	70
Colombia	99	85	68
Mexico	92	90	64
Venezuela	86	93	92
Indonesia	97	96	77
Korea	96	89	71
Philippines	107	114	88
Nigeria	177	159	106

dictate that no single or unilateral action by any of the parties can lead to a satisfactory outcome. Instead, simultaneous progress in several areas constitutes the *sine qua non* of a good overall result. These areas include: resolute self-help on the part of debtor countries; early action on capital flight; stronger growth of the world economy; willingness to deploy the resources of multilateral institutions; avoidance of counter-productive financial steps, such as interest capitalization, that would deter continuing engagement by banks; and more extensive use of market-based innovations, such as debt-equity swaps. Every step should consciously further the goal of restoring financial market confidence, a process contingent on better functioning of markets generally.

Self-help for debtor countries

The financial rehabilitation of the debtor countries requires, most of all, restoration of domestic confidence. The debt crisis was precipitated by a drastic loss of confidence, as much on the part of the residents of those countries as on the part of foreign lenders. Until the return of confidence in the political leadership, institutions, and economic prospects of those countries, domestic savings and investment are unlikely to revive. Nor will there be reason for their residents to reverse the dollarization trend and renew faith in their local currencies.

In the immediate wake of the crisis, and especially in the oil-importing countries that had borrowed to meet their import bills following the second oil shock, priority had to be given to turning large foreign trade deficits into surpluses. This was necessary to prove to their own residents as well as to foreign creditors that those countries faced a liquidity rather than a solvency

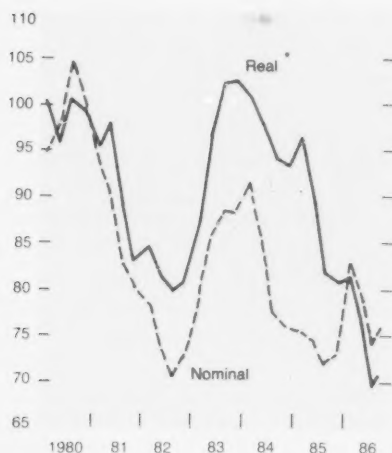
problem. To secure the requisite trade balance gains, they relied on stiffened import controls and currency devaluations (see Table 7). Fiscal, monetary, and wage policies were tightened by enough to compress internal demand but, except in a handful of countries, not by enough to prevent acceleration of inflation in response to the devaluations. Lax demand management left inflationary pressures unchecked in Argentina, Brazil, and Mexico.

Realization that gradualist anti-inflation policies were achieving little, especially where widespread indexation was left untouched, explains the eventual adoption of the Austral and Cruzado plans in Argentina and Brazil. Still, even those countries' recent achievement of inflation control cannot be taken for granted. In both Argentina and Brazil, government spending and monetary policies are too loose given the objective of very low inflation. And stabilization policies in Mexico will take time to work and boost confidence.

Even where effective, stabilization has to be supplemented with structural reforms covering a wide range of policy and institutional changes at both macro and micro levels. These could allow vigorous, sustainable economic growth through stepped-up private investment in productive, export-oriented or import-competing activities. This cannot take place unless there are strong incentives for middle- and upper-income groups to postpone consumption and increase savings — most particularly, savings held at home, expressed in the local currency, and channeled through domestic financial institutions. Opportunities also have to be made available to both residents and foreign companies to invest in sectors with profitability based on comparative advantage, rather than on subsidies and protection. In addition, fair and

Chart 1

Non-oil commodity prices 1980 = 100



* Nominal price index deflated by an index of nominal OECD wholesale prices of manufactures in dollar terms.

Table 8

World economic outlook percent change, except as noted

	1985	1986	1987
OECD real GNP	2.8	2.3	2.7
United States	2.7	2.4	2.5
Japan	4.6	2.4	2.3
Europe	2.2	2.5	3.0
Germany	2.4	3.0	3.5
OECD manufactures prices			
Local currency terms	2.5	-2.0	1.5
Dollar terms	0.4	8.2	6.9
Dollar effective exchange rate	3.2	-17.0	-9.0
LIBOR, 6-month average (%)	8.6	6.7	6.5
Average OPEC oil price (\$/barrel)	26.8	14.0	14.0
Non-oil commodity prices in dollar terms	-8.0	2.0	8.0

stable rules are needed to govern the process of saving and investing. To these ends, structural problems must be addressed: excessive regulation of private initiative, mismanaged and overextended public sectors, inward- instead of outward-looking trade regimes, and distorted financial markets unable to mobilize savings or to place them efficiently.*

Such reforms were emphasized in the 1985 Baker initiative, raising hopes that significant progress would be made or, at least, be put under way within the initiative's three-year financing horizon. However, urgent though they be, structural reforms are complex in nature, face political obstacles, and take time to implement. Although the key decisions belong to the debtor countries themselves, the policy-based lending activities of the World Bank — an institution now led by a new president with strong U.S. Treasury backing — can make a vital contribution through advice, encouragement, and financial inducements. Once the debtors' economies open up, become competitive, and offer attractive investment opportunities, money will begin to flow to them, both from foreign sources and through the return of assets their residents now hold abroad.

The world economy

The outlook for the world economy offers no grounds for complacency. Although changing usage and excess supply capacity are powerful contributing factors, sluggish economic growth in industrial countries is a major cause of the continued extraordinary depression of most commodity prices (see Chart 1). In conjunction with protectionism,

sluggish world demand also holds down gains in LDC export volume. Without open and growing industrial economies, the LDCs cannot expect the increases in their export earnings that are essential to the restoration of creditworthiness.

The world economy is in better shape today than in 1981-82 but remains seriously troubled. Only in 1984, thanks to stellar U.S. performance, did the industrial countries approach 5% economic growth. Their growth has since fallen back below 3% and, on present reading, is unlikely to pick up much in the near future (see Table 8). Although in the interests of long-term investment and growth, reduction of the U.S. budget deficit contracts domestic demand in the short term. It remains to be seen whether the dollar's depreciation will yield sufficient improvement in the trade balance to make up for this shrinkage in domestic demand. Meanwhile, despite virtual absence of inflation, Japan and Germany remain deeply averse to overt and significant measures to increase their domestic demand and thereby offset the deflation implicit in the inevitable shrinkage of the U.S. trade deficit. Worries about the long-range burdens of supporting a fast-aging population keep Japan wedded now to excessively tight-listed fiscal policies that have adverse consequences for growth while the support burden is, as yet, quite modest. Fears of inflation effectively paralyze fiscal policies in Europe, a rigidity buttressed by mercantilist traditions that find virtue only in export-led growth.

LDC export growth in recent years has depended disproportionately on sales to the U.S. market. Even though it normally takes only one third of total LDC exports to the industrial world, the United States absorbed virtually the entire increase in LDC sales to industrial countries between 1982 and 1985 in dollar

*For further discussion of reform of Latin America's trade policies and financial markets see the May 1985 and April/May 1986 issues of this publication.

Table 9

Use of IMF credit*

billions of dollars

	<u>Borrowings</u>	<u>Repayments</u>	<u>Net</u>
1980	4.41	4.16	-0.25
1981	7.98	2.46	5.52
1982	8.22	1.81	6.41
1983	13.49	2.17	11.32
1984	7.47	2.35	5.12
1985	4.08	3.70	0.38
1986 Jan-Jul	1.97	3.42	-1.45

*SDR amounts converted at average SDR/dollar rate for period.

terms. Despite this fact, it is sometimes claimed that, with the dollar now lower, the only major policy change still needed of industrial countries is that the United States should reduce its budget deficit and boost its domestic savings enough to facilitate lending to the LDCs. Yet, this is no formula for LDC export growth. Both Europe and Japan have far to go in coming to terms with their responsibilities to absorb increased exports by LDCs, not least for the benefit of their own consumers.

Official financing

No illusions should be held that industrial-country governments will soon loosen the purse strings on appropriations of taxpayers' money for LDC finance. For example, given U.S. fiscal limitations and the mood of the Congress, talk of a Marshall Plan for Latin America — which would require year-in, year-out voting of substantial sums of public money — is utterly unrealistic and counterproductive. Congress is not about to fund anything that might be construed as a bailout for the banks nor vote additional foreign aid.

Public money will continue to filter through from the regular activities of export credit and international lending agencies. But their funding is unlikely to grow rapidly in the immediate future. A number of governments have been obliged to provide budgetary allocations to cover losses of their export credit agencies on LDC credits. All are maintaining a tough line on new funding. Multilateral activity is circumscribed by the fiscal inability of the United States to contribute its normal share of any major step-up in funding and the reluctance of other industrial countries to step into the breach — at least without gaining an

increase in voting weight. The latter inevitably raises the vexing question of U.S. veto powers. Besides, the priority beneficiaries of additional official money will be the low-income countries of Africa, Asia, and Central America rather than the higher-income newly industrializing countries of Asia or Latin America.

Another notion that deserves to be retired is that the IMF can step back from the LDC debt stage because the worst of the payments crisis is over. During the past year, mounting repayments of earlier drawings on Fund resources have come to exceed the much-reduced pace of disbursements (see Table 9). Thus the Fund's financial role in the debt strategy — and, more seriously, its advisory role — has diminished. Some find this a desirable development. But it must not be overlooked that massive payments imbalances continue to arise as the world economy is subjected to unpredictable shocks. This year's collapse of oil prices, by nearly 50% from the \$27 per barrel average of 1985, is cutting some \$60 billion from the oil export earnings of developing countries, including OPEC members, Mexico, and others.

The Fund was intended to play a significant role in helping countries cope with such abrupt shifts in circumstance. The institution's ample resources should now be mobilized on behalf of those oil exporters making respectable adjustment efforts. In no way should this be interpreted as the shoring-up of cartelized pricing. If the oil price decline is deemed to be temporary in nature, the Fund's Compensatory Financing Facility (CFF) should be put to work up to the 83%-of-quota access limit currently in effect. Thought also might be given to raising this limit. If the oil price weakness is viewed as a more permanent shift, use of the CFF would be inappropriate. Longer-term facili-

Table 10

External assets and debt

billions of dollars, at end-1985

	Assets			Gross debt
	Total	Of which Banking system*	Other**	
Argentina	33	7	26	49
Brazil	30	19	11	106
Mexico	60	6	54	97
Venezuela	54	19	35	38
Philippines	11	3	7	26
Nigeria	12	2	10	20

*Official reserves (including gold) and foreign assets of domestic banks.

**Cumulative capital outflows during 1976-85. These estimates were described in the March 1986 issue of this publication. They are derived from published data on balance of payments flows and on stocks of external debt and banking system foreign assets. Data are not available from host countries where assets are located. Estimates published here are well within the range of those made by analysts in several other private and official organizations.

ties should be created, if necessary tapping the resources of today's major surplus countries, such as Japan and Germany, through the Fund's General Arrangements to Borrow. It seems fair to recall that, when prices soared following the first oil shock of the 1970s, a facility was established to which Saudi Arabia contributed heavily and through which the Fund was quick to assist rich industrial countries such as Britain, France, and Italy. With the shoe now pinching the other foot, it is hard to rationalize the Fund's present limited assistance to the much-lower-income oil-exporting nations.

Capital flight

LDC capital outflows have to be tackled as part of the solution to the debt problem, not as something that need be addressed only later. If capital flight is given a free ride in the caboose of the LDC debt train, the train has little hope of making the station. It is both necessary and feasible to deal forthrightly with issues affecting capital flight. It is necessary for quantitative and psychological reasons; it is feasible because the causes of capital flight are fairly well understood, and the means exist to stem and reverse it.

Residents of the debtor countries have accumulated substantial amounts of assets abroad. This accumulation has drained resources, both domestic and external, that might otherwise have been used for domestic investment. The liabilities corresponding to these assets are represented by the borrowings of governments, state enterprises, central banks, and private-sector companies from foreign creditors, including commercial banks. Some of these external borrowings unfortunately supported policies that discouraged residents from investing

locally and caused them to seek better returns abroad.

The buildup of foreign assets by residents of several major debtor countries — notably, Argentina, Mexico, and Venezuela — bulks large in relation to their countries' external debts (see Table 10). Thus, their net external positions are quite favorable in comparison with their gross indebtedness and with the net positions of other countries.

Psychologically, nothing has contributed more to the pervasive sense of frustration over the LDC debt problem than the realization that capital flight persisted, if on a much reduced scale, almost throughout the 1983-85 period of "involuntary" lending. Creditors, both private and official, are understandably reluctant to provide fresh funds unless the debtors put a stop to the capital flight.

Even if, at least for now, the outflow of capital has diminished, the consequences of past flight still aggravate the debt problem. The earnings on the accumulation of assets made possible by the debt buildup are not being used to service that debt. Certainly that is the case with the earnings on assets held by private-sector residents, which generally are not repatriated and are therefore unavailable for this purpose. If these accumulated assets were yielding, say, an average 6% annual return, the earnings, if repatriated, would generate foreign exchange sufficient to pay roughly one-third of the interest owed on the total external obligations of the major LDC debtors (see Table 11).

Reversing the outflow of capital and repatriating earnings need not be fantasy. The decline in U.S. interest rates lessens one incentive for residents of troubled debtors to hold assets abroad. However, repatriation will not occur on a substantial scale unless the conditions also are right in the debtor countries

Table 11

Potential contribution of earnings repatriation to debt service

billions of dollars and percent

	Earnings at 6% on non-banking-system foreign assets*	1986 interest payments on external debt	Earnings as % of payments
Argentina	1.6	4.3	37
Brazil	0.7	8.9	8
Mexico	3.2	8.3	39
Venezuela	2.1	2.9	73
Philippines	0.4	2.0	22
Nigeria	0.6	1.1	53
Total	8.6	27.5	31

*See Table 10 for estimates of these assets at end-1985.

themselves. Individuals and businesses respond to market signals — hence the importance of realistic interest and exchange rates on a sustained basis plus attractive investment opportunities in domestic financial markets and business enterprises. The incentive to hold assets abroad could be further reduced were the debtor governments to take steps to improve their ability to collect taxes on their residents' earnings on foreign assets. Tax and exchange rate inducements could be offered to encourage repatriation of foreign assets and the earnings on them.

The banks' position

The debt strategy seeks to strengthen not only the borrowing countries but also their creditors. For the commercial banks the prudent course continues to lie in building capital at a much faster pace than their credit exposures to the major debtors. The banks already have strengthened their capital positions substantially relative to their LDC exposures, thereby reducing their vulnerability to any strains associated with those exposures. On average, for example, U.S. banks, have brought down the ratio of LDC exposures to their own primary capital from a peak of 191% in mid-1982 to 106% in early 1986, or well below end-1977 levels (see Chart 2). For the nine large U.S. money center banks the average ratio has come down from 290% to 174%; their exposures to the four largest borrowers in Latin America — Argentina, Brazil, Mexico, and Venezuela — ranged between 75% and 135% of primary capital at the beginning of this year and were mostly clustered near the 100% mark.

Although much reduced from earlier levels, bankers generally regard these ratios as still uncom-

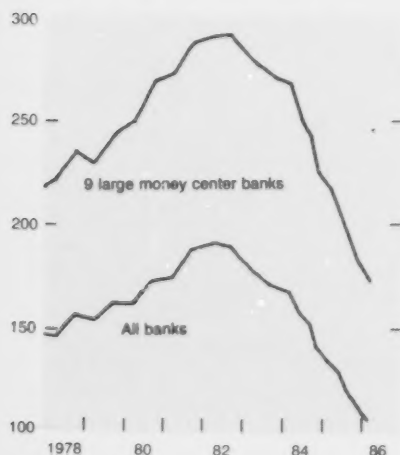
fortably high. What may constitute the upper limit of prudence is difficult to judge amid today's credit quality and world environment concerns, not to mention worries voiced about the possibility of collective default. The recent talk about debt relief lessens banks' willingness to lend and intensifies their drive to lower their ratios of LDC exposure to capital.* Moreover, LDC exposure is not the only concern to banks, bearing in mind the current difficulties of the agriculture, energy, and real estate sectors.

Besides adding to their loan loss reserves and capital bases, banks will continue to charge off loans to LDC borrowers when appropriate. Some also may choose to sell part of their existing LDC exposures, incurring losses in accordance with the discounts prevailing in the secondary market. However, voluntary decisions by bank managements to reserve against possible losses or to incur actual losses via charge-offs and loan-sale discounts are a far cry from forced debt relief and in no way signal a willingness to forgive debt. Given the range of risks confronting the banking system, this is not the time for bold adventures down the road of compulsion, whether forgiving interest or principal.

In the case of interest relief — unilateral nonpayment or forgiveness by agreement — banks would incur an immediate reduction of pretax earnings by no less than the amount of interest in question and possibly by the amount of all interest on the affected loans; conservative management, its accountants, or the regulators might put such

Chart 2

**U.S. banks' claims on LDCs
as percent of primary capital**



*In the first quarter of 1986, BIS-reporting banks' claims on developing countries declined by \$2.7 billion, or 0.6%, in current dollar terms. After adjustment to exclude the valuation effects of the dollar's depreciation, the decline was \$8.4 billion, or 1.8%. Only part of this drop can be explained by normal seasonal patterns, and by loan charge-offs, loan sales to nonbanks, and loan repayments financed by issuance of securities.

loans on a status requiring that any interest received be applied to principal reduction rather than taken as income.

Principal forgiveness would result in immediate charge-offs at least equal to the amount forgiven, as well as earnings reduction. Most banks could withstand some earnings losses and charge-offs on loans to a single major debtor country. Yet if debt relief were offered to any one debtor, political realities would virtually dictate extension of relief to others. That might shake confidence in a number of banks. Indeed, snowballing debt relief still could threaten the international financial system as a whole.

Innovative finance

Beyond building up capital and realigning their existing LDC loan portfolios, banks ought to explore the applicability to LDC finance of the innovative instruments and techniques originating in other financial markets. However, "creative" accounting is wholly out of place. Interest capitalization is a particularly misconceived course. As a substitute for new money, interest capitalization could seriously undermine a significant discipline on debtor countries. Once established, it could become an automatic financing device, obviating the need for debtors to approach the IMF and the banks for additional financing subject to appropriate conditions. While this external discipline may be politically unpopular in the debtor nations, it is a vital force for securing sustained adjustment and constructive policy reforms. Moreover, it is important for the integrity of the banking system now — and down the road, for the debtors' recovery of market access — that there be no explicit or implied capitalization of interest obligations nor material de-

parture from market-related pricing.

One promising development in financial markets is the conversion of LDC debt into equity. Such conversions have considerable potential not only for reducing external debt, but also to attract resident assets from abroad and foreign direct investment. Debt-equity swaps entail purchase by residents or foreign investors of the debtor country's foreign-currency obligations at a discount abroad and their redemption at a smaller effective discount in the obligor's local currency. Investors thereby obtain local-currency funds for approved business purposes more cheaply than through the official or parallel exchange market, using discounted dollar claims acquired in the emerging secondary market for bank loans. Banks — small and medium-sized ones especially — may find this an attractive mechanism to work down their LDC exposure at a market-determined cost. Banks that have written off a large part of their LDC loans may even recoup more than book value.

For the debtor countries, debt-equity swaps reduce foreign-currency debt and related interest costs. Interest payments may be replaced by dividend remittances once a foreign creditor or investor acquires the equity. Of course, dividends will hinge on the success of the equity investment and remittances may be subject to exchange controls. The effectiveness of debt-equity swaps in generating new investment in the debtor countries depends on the availability of attractive opportunities for equity investment. This, in turn, requires sufficient improvement in the overall investment climate in those countries and more wholehearted acceptance of privatization and foreign direct investment than some governments display at present.

Concerns have been expressed

that debt-equity swaps may adversely affect domestic monetary policy and exacerbate fiscal deficits in debtor countries. When a foreign creditor exchanges its claim on an entity in a debtor country for equity in the same entity, no flows of funds are involved. Domestic monetary conditions are unaffected, except to the extent that the entity's improved balance sheet allows it increased usage of local credit sources. When local-currency funds are paid out in exchange for the foreign-currency debt being swapped, domestic liquidity will increase if the central bank provides the local-currency funds directly or lends funds to a local entity whose foreign-currency debt is being redeemed. However, excessive monetary expansion need not result if the central bank absorbs the additional liquidity through other policy actions or limits other forms of liquidity creation appropriately. Failure to neutralize or otherwise offset the domestic monetary consequences of debt-equity swap transactions may reflect inadequate policy instruments, or an unwillingness to use them, rather than a shortcoming of debt-equity swaps. Otherwise, such swaps can seriously threaten domestic monetary control only if swap volume is large in relation to the country's existing monetary base. As for fiscal consequences, a debtor-country government or public-sector entity may have to borrow local currency at rates of interest higher than those on the foreign-currency debt being redeemed. However, the increased fiscal expense is no fault of the swap concept, since high local-currency interest rates typically reflect existing failure to control domestic inflation through appropriate monetary and fiscal policies.

As yet, the debt-equity swap market remains in its infancy, mainly because the debtor governments have resisted removal of regulatory

impediments. The note following this article summarizes the conversion policies of Brazil, Chile, Mexico, Argentina, and the Philippines. To date, these five countries have converted roughly \$3 billion of their foreign-currency debt. This is but a small fraction of their \$220 billion debt to foreign commercial banks. The potential scale of conversions is substantially greater — certainly no less than \$5 billion *annually* in these five countries alone. Realizing that potential, however, requires that the debtor countries take the needed steps to improve their overall investment climate and open up opportunities for private capital.

Altogether, debt-equity conversions are an effective mechanism for the lessening of debt burdens and, because they are market-based, are more constructive for the debtors' long-term economic prospects than schemes for mandatory relief. The opportunity to sell or trade their loan portfolios enables banks to work down their exposure-capital ratios more speedily and the smaller banks to exit, although at the price of write-offs and charges to their earnings. Best of all, confidence in the LDCs will be enhanced as they attract equity finance in place of debt obligations, laying a sound basis for adequate economic growth in the years to come.

Realism, not cynicism

After four difficult years, it is understandable that a certain fatigue and frustration have overtaken many of the parties to the LDC debt problem. Rarely are complex problems susceptible to quick or easy solutions. The LDC debt problem is no exception, although some observers still imagine that demagoguery and gimmicks can provide instant solutions.

Particularly unfortunate is the misunderstanding, if not opportunism,

Table 12

U.S. trade deficit by regions

billions of dollars, FAS/CIF

	1984	1985	1986*
Latin America	-18	-18	-16
Western Europe	-17	-27	-36
Japan	-37	-50	-59
Asia excluding Japan	-28	-32	-35
Canada	-20	-22	-24
Other countries	-3	1	-5
Total	-123	-148	-175

*January-July at an annual rate.

evidenced by those pushing simplistic approaches to the debt problem as a fix for the U.S. trade deficit. Granted, U.S. exports to Latin America plummeted from \$39 billion in 1981 to less than \$23 billion in 1983 and have since staged little recovery. However, the principal and still-continuing U.S. export losses have been in trade with Europe, while stepped-up import penetration of the U.S. economy has mainly reflected inroads by Japan and other developed countries as well as by the newly industrializing countries of Asia. Thus, it is unrealistic to suppose higher U.S. sales to Latin America will do much to remedy the overall U.S. trade deficit (of which the bilateral deficit with Latin America is less than one tenth; see Table 12) or that there exists some financial contrivance that will enable a strong rise in U.S. exports to the region before those countries themselves achieve better export performance. Early improvement of the overall U.S. trade position will have to occur mainly vis-à-vis the other industrial countries, preferably through faster economic growth on their part — since this would vastly brighten global economic prospects — or else through further dollar depreciation.

Still more objectionable is the suggestion that a smart debtor — not unlike the proverbial millionaire panhandler — should borrow all he can, invest abroad, and then demand debt relief. Through capital flight, several of the major debtor countries have accumulated tens of billions of dollars in assets abroad. Surely it is inimical to the functioning of an international financial system that these asset holdings, and the earnings thereon, should fail to be made available for debt service.

In any case, there is no shred of reason to suppose that some radical clearing of the decks can yield

quick miracles for the debtor countries, or indeed miracles at all. The current craving for a politically negotiated all-weather "plan" to solve the debt problem is a dead-end street. This would require U.S. congressional involvement, which would politicize the debt issue. The deceptive promise of increased exports and jobs through debt relief would set the legitimate interests of the financial community against those of business and labor, while doing nothing to revive investor confidence in the debtor countries. When public money is as scarce as today, it makes no sense to alienate the private financial sector. If banks are required to write down their loans, simple prudence — and even perhaps legal considerations — would surely inhibit new lending to troubled countries for years to come.

All told, there is no realistic alternative to continuing on within the precepts of the present debt strategy. They have the great virtue of keeping clearly in sight the ultimate objective of all concerned with the LDC debt issue — vigorous and sustainable economic growth for the debtor countries through restoration of their access to the international financial markets. Admittedly, that will not come about overnight or unfold in neat stages — as Mexico's troubles attest. The debtors will have to persevere with stabilization and structural reform. The commercial banks as a whole must stay in the game. So too must the official bilateral agencies and multilateral institutions — including the IMF and, as never before, the World Bank. All parties involved will have to exercise patience and flexibility. They also will need openness toward new ideas, not least to cope with evolving circumstances. Debt-equity conversion is a good example of market-based initiative. By contrast, suggestions for mandatory debt re-

lief are only counterproductive. Whatever modest benefit relief might provide debtors in the short run would be far outweighed by the

long-term costs of failure to reorient development strategies in ways that enable markets to make their maximum contribution.

Note on debt-equity swap programs

Brazil allows foreigners to convert foreign-currency debt claims into equity investments, subject to existing regulations on foreign investment. Repatriation of this equity capital is restricted to the terms of the original loan. During a brief period in 1984, foreign investors could use external debt purchased in the secondary market for conversion purposes and receive a 10% tax credit from the government. After mid-1984, debt-equity conversions were limited to those by foreign creditors directly into equity in the obligor, and in early 1985 the tax credit was ended. Since 1983, nearly \$1.8 billion of Brazil's external debt has been converted into equity, much of it by multinational corporations converting intercompany loans to their Brazilian subsidiaries into equity. However, the pace of conversions has diminished sharply since the beginning of this year.

Chile's debt-equity conversion scheme is currently very active because it is the least restrictive and most straightforward. Deals already completed or possible later this year will reduce its foreign debt by as much as \$1 billion. Foreign creditors can present their foreign-currency loans to the obligor for redemption in pesos, which can be invested locally. Resident and foreign investors can purchase Chilean external debts at a discount in the secondary market and likewise present them for redemption at the official exchange rate, using the proceeds for a wide range of in-

vestments or to repay local-currency debt. Residents, but not foreigners, are required to purchase a "cupo," or quota, equal to the face value of the transaction from the central bank at a monthly auction to carry out the conversion. Foreign investors register their peso proceeds as capital under Chile's foreign investment law and are prohibited from remitting dividends or repatriating the new capital for five years. The net effect of these debt conversions is to extinguish foreign-currency obligations without cost to official reserves, since the foreign exchange comes from nonresidents, or from residents' holdings abroad or their purchases in the local unofficial market. The attraction of the Chilean scheme to local investors is the arbitrage opportunity arising from the difference between the discount at which debt is purchased in the secondary market less the cost of the quota and the gap between the exchange rate for pesos in the unofficial market, through which dollars can be purchased to acquire discounted debt, and the official rate at which debt redemption takes place. The scheme allows foreign investors to acquire pesos more cheaply than direct purchase in the official market.

Mexico launched a debt-equity conversion program earlier this year whereby foreign investors can acquire Mexican public-sector external debt at discounts in the secondary market and exchange it at the free exchange rate for pesos to be used for approved equity investments.

The debt is redeemed at between 70% and 100% of face value. The redemption price depends on the usage of the pesos and the differential between the free and controlled rates of exchange. Acceptable uses include purchases of equity in state-owned companies, new peso-denominated capital expenditures, repayment of peso loans to Mexican nationalized banks, prepayment of Ficorca peso obligations, and payments to domestic suppliers. The highest priorities and therefore the highest redemption prices are for buyers of privatized state-enterprises and for new investments or capital expansions that generate exports, reduce imports, create new jobs or are located in special zones. Deals amounting to about \$150 million, including one of \$40 million for Nissan Motors, have been approved so far, and a number of other proposals reportedly are under consideration. Some analysts see the possibility of Mexican debt-equity swaps reaching between \$¾ and \$1¼ billion over the next year, although concerns are expressed about the cumbersome and arbitrary approval process each deal must go through.

Argentina's government recently announced a new program for debt-equity conversion under which any type of registered Argentine external debt obligations can be converted into australs at the official exchange rate provided the local-currency funds are used for new investments in export-oriented activities and the investor brings in additional foreign exchange funds, also at the official exchange rate, equivalent to the face value of the debt being converted. The financial incentive provided by debt-equity conversions is significantly reduced by this "new money" requirement and by use of the official as opposed to free market rate of exchange. The requirement that proceeds of the

conversion be used only for new investments in export-oriented activities also means they would not be available for privatization of public-sector companies or other productive uses. Government officials have indicated an annual target of \$1 billion for conversions under this scheme, which is unrealistic given the restrictive terms and the overall investment climate at present. Last year, under an earlier debt capitalization program limited to private-sector external debt covered by central bank exchange guarantees, nearly \$470 million of external debt was converted into equity, mostly by residents seeking a cheaper source of local currency.

In the Philippines, the authorities also recently formalized a program for debt-equity conversion, which they hope will attract an initial \$250 million. The program enables resident and foreign investors who hold or purchase Philippine external debt obligations to redeem such debt through the central bank for the peso equivalent of the face amount of the obligation at the prevailing official exchange rate, provided they undertake to use the peso proceeds for approved long-term equity investments in the Philippines. For investments in priority areas, such as export industries and agricultural development, the central bank charges a 5% conversion fee, and allows repatriation of capital in installments after the third year. Dividends paid out of profits are not restricted. For investments in lower priority categories, the central bank's conversion fee is 10%, repatriation of capital can only begin after five years, and no dividends are permitted within the first four years. Moreover, for such categories the investor must bring in additional foreign exchange equal to 10% of the total equity investment. So far, only a few small deals are believed to have been completed but several

more are reportedly under consideration. Prior to the recently announced program, a few foreign banks converted Philippine exposure into equity in local financial institutions.

Statistical appendix

*For key to data in tables
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without responsibility on the part of
Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.8	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.8	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985	127.1	92.8	115.8	76.3	85.4	107.8	82.1	88.2	104.2	89.5	104.0	75.6	109.5	95.0	95.6	83.9
1985																
September	125.2	92.1	114.9	74.0	86.3	108.6	79.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.9	91.3	123.6	71.8	87.3	109.8	80.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
November	117.0	90.3	129.5	67.9	87.6	109.9	80.2	89.7	105.2	90.5	105.6	72.8	113.4	96.5	94.8	83.3
December	116.1	88.9	129.2	67.8	88.3	111.3	80.2	88.3	105.9	90.4	106.7	72.9	112.3	97.3	94.9	83.1
1986																
January	115.1	87.9	130.1	69.1	88.8	112.5	81.0	85.3	106.4	91.1	107.6	73.0	112.1	97.6	94.8	82.7
February	111.2	87.5	138.8	66.9	89.5	113.5	81.7	82.6	106.8	91.6	108.2	73.2	114.2	98.1	95.3	82.0
March	109.0	87.3	142.3	66.5	89.6	113.8	82.0	83.1	107.1	91.7	108.5	73.8	114.0	98.3	94.7	81.9
April	108.1	88.0	144.9	67.4	86.8	114.1	81.7	85.0	107.1	92.4	108.7	73.5	114.9	98.3	94.5	81.9
May	105.8	88.4	150.9	66.5	86.5	114.5	82.0	84.9	107.0	92.6	109.1	73.6	115.8	98.7	89.8	82.0
June	106.5	87.6	151.1	63.2	86.5	114.6	82.0	84.5	107.1	92.6	109.2	73.2	117.1	98.9	87.8	81.8
July	104.0	87.8	158.6	56.4	86.3	115.8	82.8	82.2	107.5	92.7	110.3	74.0	120.2	99.1	87.3	81.4
August	102.3	87.0	161.7	54.2	86.4	117.6	83.7	78.8	108.1	93.4	111.7	74.0	122.7	100.4	86.7	81.0
August 8	102.4	87.5	162.1	54.3	86.6	117.2	83.6	78.7	108.0	93.2	111.5	73.8	122.4	100.5	86.8	81.2
15	102.3	87.1	161.8	54.4	86.5	117.4	83.7	79.0	107.9	93.3	111.6	74.0	122.5	100.6	86.7	81.1
22	102.0	86.7	162.1	54.5	86.3	117.6	83.8	79.1	108.1	93.4	111.7	74.2	122.6	100.3	86.7	81.1
29	102.3	86.7	160.9	53.8	86.2	118.1	83.9	78.3	108.2	93.7	111.9	73.8	123.2	100.3	86.9	81.0
September 5	101.8	87.0	160.5	54.1	86.3	118.2	83.9	78.7	108.2	93.7	111.9	73.8	122.7	100.3	86.8	81.0
12	102.7	87.3	160.5	54.7	86.2	117.7	83.7	78.8	108.2	93.5	111.6	73.6	121.7	99.8	86.9	81.2

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	100.7	99.9	104.7	102.8	99.8	97.4	98.7	102.3	99.1	100.9	97.3	99.3	98.8	99.2	101.1	102.1
1982	109.8	101.1	92.4	104.3	96.8	99.6	98.1	98.1	100.8	92.0	101.5	100.1	102.8	97.5	102.5	96.9
1983	112.8	103.9	96.8	100.2	94.4	100.5	101.0	92.8	102.1	89.1	101.1	91.2	104.2	99.2	101.6	91.9
1984	118.0	102.7	97.7	105.2	96.4	97.3	101.4	89.8	103.0	88.1	99.3	95.6	99.7	96.7	100.3	97.2
1985	120.9	99.0	96.5	88.8	99.8	96.0	99.8	92.4	103.2	87.4	97.3	97.8	97.9	98.5	99.2	98.2
1985																
September	117.6	99.3	95.6	87.8	101.1	96.6	98.1	96.6	103.6	87.0	97.7	97.0	98.1	98.0	100.7	97.2
October	113.9	97.1	101.4	84.8	101.7	97.3	98.8	95.1	104.1	87.1	97.8	96.1	101.5	100.4	99.8	97.2
November	112.3	96.0	105.6	80.5	101.9	97.4	98.9	95.0	104.4	87.2	97.8	96.3	101.6	100.7	100.3	97.3
December	111.5	95.0	105.2	80.9	102.1	98.3	99.4	93.9	105.8	87.1	96.9	96.8	100.5	101.8	100.3	97.2
1986																
January	109.7	95.2	105.8	83.3	101.8	99.2	101.4	91.7	107.3	87.8	99.4	99.5	99.0	100.8	100.6	97.5
February	105.1	95.6	113.1	81.9	102.5	99.9	101.6	89.9	108.5	88.0	99.9	101.2	100.6	102.2	101.4	97.1
March	102.0	96.0	116.3	81.3	102.3	100.1	101.8	91.3	108.9	88.0	100.4	103.4	101.0	103.8	101.8	96.6
April	101.2	96.5	117.6	83.2	98.7	100.2	101.4	94.1	108.9	88.7	100.4	104.2	101.5	103.9	102.3	96.6
May	100.1	95.7	121.8	82.4	98.0	100.3	101.5	94.7	109.3	88.3	100.9	104.8	102.0	104.7	97.5	96.3
June	101.0	94.9	121.5	78.6	97.4	100.3	101.8	94.4	109.9	88.5	100.6	105.3	102.8	104.9	97.8	96.1
July	98.0	95.9	127.1	70.8	96.9	101.3	102.6	92.5	111.0	88.7	101.8	107.8	105.5	104.7	98.7	95.8
August	96.6	94.8	129.0	68.4	96.6	102.7	103.7	89.2	112.0	89.1	102.8	106.7	107.4	106.3	99.1	95.2

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colom- bia	Mexico	Peru	Vene- zuela	Hong Kong	Indo- nesia	Korea	Malaysia	Phillip- pines	Singa- pore	Taiwan	Israel	Turkey
1981	107.5	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.7	101.2	99.3	101.2	101.9	102.6	99.2	104.4
1982	76.4	112.2	96.7	104.9	81.9	103.8	109.1	102.3	110.9	103.0	104.7	105.6	99.9	96.5	107.9	95.6
1983	71.2	85.9	88.9	104.2	78.1	97.9	116.3	96.8	95.8	97.5	113.1	95.4	100.8	93.3	120.1	93.4
1984	79.9	85.7	89.9	99.4	91.6	105.7	85.6	100.4	96.8	96.1	119.3	107.6	101.5	95.6	118.8	90.9
1985	70.9	84.8	79.5	85.3	90.1	96.1	92.5	106.1	95.6	88.8	116.0	114.1	94.8	93.0	106.0	91.2
1985																
August	67.0	80.6	74.2	81.6	82.0	92.1	92.7	103.3	94.5	86.0	114.8	110.3	90.1	90.3	98.6	85.4
September	67.7	81.0	75.6	80.6	82.7	94.6	94.1	105.0	94.5	86.1	115.6	111.7	92.3	90.9	102.0	86.4
October	65.0	79.5	73.1	76.3	78.8	91.4	90.9	101.7	88.7	82.0	111.0	106.6	90.1	87.7	100.9	85.4
November	64.1	80.2	72.5	73.7	77.1	90.6	90.4	100.6	86.5	80.7	109.9	105.6	89.2	87.0	101.5	85.1
December	63.7	80.5	71.9	71.5	74.6	90.7	90.4	99.8	85.9	80.2	106.7	104.7	88.6	86.7	101.4	83.1
1986																
January	63.2	79.7	70.9	72.6	72.2	91.1	90.0	99.0	85.9	79.5	107.9	104.9	87.5	86.7	100.9	83.3
February	61.9	82.4	68.3	71.6	70.6	91.6	90.0	98.2	83.0	77.4	104.2	94.5	85.1	86.3	100.4	81.4
March	62.7	76.5	67.9	71.8	69.6	91.8	90.2	97.7	81.4	75.5	101.0	92.7	83.7	84.6	100.0	75.7
April	62.9	75.2	69.7	71.5	68.2	95.7	91.4	98.6	81.4	73.9	98.9	91.7	83.1	85.4	102.1	73.6
May	61.9	74.4	69.8	69.6	67.1	97.6	91.8	97.7	80.3	72.6	97.1	90.1	81.1	84.5	103.1	73.4
June	62.5	74.8	71.7	68.8	68.2	101.3	91.9	98.1	80.7	72.8	96.9	90.5	82.9	85.6	103.7	73.2
July	63.1	74.2	71.3	68.1	67.1	104.6	92.0	97.4	78.6	72.1	96.0	90.2	79.2	84.9	103.2	72.4

International banking market size

at end of period, billions of dollars

	1981	1982	1983r	1984	1985				1986
				Dec	Mar	Jun	Sept	Decr	Mar
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 359	2 473	2 459	2 622	2 833	2 947
On nonbanks	557	634	665	694	722	735	761	822	854
On banks	1 372	1 512	1 588	1 665	1 751	1 724	1 861	2 011	2 093
In dollars	1 504	1 694	1 797	1 894	1 960	1 924	2 002	2 101	2 138
In other currencies	425	452	456	465	513	535	620	732	809
Domestic currencies, on nonresidents	365	398	398	402	409	422	451	506	535
On nonbanks	128	132	136	142	147	150	165	187	186
On banks	237	266	262	260	262	272	286	319	349
In dollars	188	211	217	215	208	209	205	215	203
In other currencies	177	187	181	187	201	213	246	291	332
Total	2 294	2 544	2 651	2 761	2 882	2 881	3 073	3 339	3 482
On nonbanks	685	766	801	836	869	885	926	1 009	1 040
On banks	1 609	1 778	850	1 925	2 013	1 996	2 147	2 330	2 442
In dollars	1 692	1 905	2 014	2 109	2 168	2 133	2 207	2 316	2 341
In other currencies	602	639	637	652	714	748	866	1 023	1 141
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 168	2 278	2 386	2 489	2 471	2 641	2 846	2 964
To nonbanks	372	432	479	497	508	520	546	585	610
To official monetary institutions	112	91	88	96	98	106	109	112	106
To other banks	1 470	1 645	1 711	1 793	1 885	1 845	1 986	2 149	2 248
In dollars	1 539	1 741	1 846	1 950	2 010	1 969	2 045	2 147	2 166
In other currencies	415	427	432	436	479	502	596	699	798
Domestic currencies, to nonresidents	263	250	260	280	293	310	341	377	394
To nonbanks	74	70	73	80	82	89	103	114	121
To banks	189	180	187	200	211	221	238	263	273
In dollars	126	116	135	148	147	154	159	169	166
In other currencies	137	134	125	134	146	156	182	208	228
Total	2 217	2 418	2 538	2 666	2 782	2 781	2 982	3 223	3 358
To nonbanks	446	502	552	577	590	609	649	699	731
To banks and official institutions	1 771	1 916	1 986	2 089	2 192	2 172	2 333	2 529	2 627
In dollars	1 665	1 857	1 981	2 096	2 157	2 123	2 204	2 316	2 332
In other currencies	552	561	557	570	625	658	778	907	1 026
Net market size	1 155	1 285	1 382	1 430	1 470	1 497	1 572	1 676	1 735

International bond issues and bank credits

millions of dollars

	1983	1984	1985	1986			Jan-Jun	
				Apr	May	Jun	1986	1985
By country of borrower								
Industrial countries	102 652	177 077	226 711	30 528	19 085	15 084	124 351	105 705
Australia	5 737	5 816	14 407	1 419	1 616	408	8 954	5 490
Austria	1 290	2 254	2 435	195	564	—	1 863	1 394
Belgium	2 168	1 847	3 269	526	338	100	2 742	1 698
Canada	8 571	13 124	17 184	2 533	914	682	8 252	9 844
Denmark	3 941	4 825	3 589	930	138	676	2 219	2 094
Finland	1 271	1 713	1 846	188	196	69	1 233	950
France	8 626	11 298	18 773	1 574	821	557	6 324	7 468
Germany	3 197	2 165	3 452	1 169	2 127	244	5 084	1 098
Greece	1 291	1 551	1 588	46	375	177	665	1 307
Ireland	1 869	1 377	1 881	317	502	80	1 343	909
Italy	4 876	6 933	11 033	1 943	1 950	987	7 111	6 946
Japan	14 428	17 526	21 269	4 059	2 253	3 166	15 190	11 370
Netherlands	1 213	1 973	2 299	326	57	67	1 591	998
New Zealand	802	3 208	2 707	1 121	521	200	3 174	1 666
Norway	1 969	1 324	3 905	537	235	590	2 001	2 097
Portugal	1 030	1 796	2 382	20	127	628	1 424	1 120
South Africa	1 300	1 422	825	—	—	—	—	740
Spain	4 977	4 931	3 913	685	331	1 073	2 580	2 789
Sweden	7 144	11 256	9 890	897	46	391	5 761	6 016
United Kingdom	2 726	8 899	25 424	2 931	1 511	1 984	12 601	10 155
United States	20 276	65 054	69 194	8 670	4 264	2 741	31 849	28 829
Other*	3 950	6 785	5 447	442	200	265	2 389	1 232
Developing countries	38 256	39 725	32 139	1 437	2 372	2 376	12 515	12 320
Latin American countries	15 592	17 464	8 115	150	255	500	1 416	1 103
Argentina	1 750	4 212	3 700	—	—	—	17	—
Brazil	4 475	6 649	—	—	—	—	—	—
Chile	1 405	784	1 085	—	—	—	—	—
Colombia	552	589	1 052	—	—	—	—	—
Mexico	5 138	3 918	109	—	50	—	50	—
Venezuela	237	—	48	—	—	—	—	—
Other**	2 035	1 312	2 121	150	205	500	1 349	1 103
Asian countries	12 978	15 893	18 410	828	1 357	776	7 857	7 817
India	968	945	818	—	9	30	650	298
Indonesia	2 363	1 924	451	27	—	—	983	424
Korea	4 387	6 201	5 898	174	492	249	2 049	3 282
Malaysia	2 197	2 605	2 220	—	154	—	208	1 053
Philippines	878	925	925	—	—	—	—	925
Thailand	747	1 221	1 497	—	406	—	1 016	716
Other	1 438	2 072	6 602	628	297	497	2 952	1 120
Middle Eastern and African countries	9 686	6 368	5 614	459	760	1 100	3 242	3 400
Algeria	1 993	821	1 450	—	—	390	797	1 300
Nigeria	2 343	985	—	—	—	—	—	—
Turkey	1 106	741	1 203	459	150	60	972	604
Other	4 244	3 821	2 960	—	610	650	1 473	1 497
Eastern European countries	1 294	3 244	5 236	360	548	300	2 219	2 323
Hungary	741	1 386	1 578	210	—	300	821	688
Soviet Union	93	1 051	1 489	150	548	—	1 248	891
Other***	460	807	2 169	—	—	—	150	744
International organizations****	16 201	13 287	20 635	899	1 138	794	8 513	10 254
By type of instrument and currency								
International bond issues	76 329	107 411	167 756	26 116	14 541	13 294	105 735	82 918
Eurobonds	48 501	79 458	136 731	22 051	13 034	11 645	87 742	69 547
U.S. dollar	38 428	63 593	97 782	12 032	8 607	7 910	53 988	54 000
German mark	3 817	4 604	9 491	1 698	1 990	1 003	8 592	3 683
British pound	1 947	3 997	5 766	2 412	307	543	5 965	2 416
Japanese yen	212	1 212	6 539	1 579	961	653	7 338	1 867
European composite units	2 019	3 032	7 038	1 729	375	563	3 995	3 318
Other	2 078	3 020	10 114	2 602	794	974	7 864	4 263
Foreign bonds	27 828	27 953	31 025	4 065	1 507	1 649	17 993	13 371
U.S. dollar	4 545	5 487	4 655	400	—	—	2 364	2 157
German mark	2 671	2 243	1 741	—	—	—	—	800
British pound	811	1 292	958	—	77	—	186	291
Swiss franc	14 299	12 626	14 954	3 116	911	1 187	10 942	5 977
Japanese yen	3 772	4 628	6 379	309	123	314	3 137	3 169
Other	1 730	1 677	2 339	239	396	148	1 364	977
International bank credits	82 074	125 922	116 964	7 109	8 603	5 259	41 864	47 685
Eurocurrency credits	74 222	112 605	110 317	6 653	8 114	4 950	39 146	44 406
Foreign credits	7 852	13 317	6 648	456	489	310	2 718	3 279
Total	158 403	233 333	284 720	33 224	23 144	18 554	147 599	130 603

*Includes multinational organizations.

**Includes unallocated.

***Includes COMECON institutions.

****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1983	1984	1985	1986						
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug
Eurodollar										
overnight	9.50	8.63	12.25	7.81	7.63	6.88	6.81	8.25	6.25	5.88
one month	9.69	8.38	8.00	7.81	7.38	6.81	7.00	6.88	6.38	5.69
three months	9.81	8.63	7.88	7.75	7.31	6.75	7.00	6.75	6.38	5.56
six months	10.06	9.13	7.88	7.69	7.25	6.75	7.06	6.75	6.38	5.56
twelve months	10.38	9.81	7.94	7.75	7.25	6.81	7.25	6.81	6.50	5.69
Euro-Canadian dollar										
one month	9.13	9.88	9.00	12.88	10.75	8.38	8.38	8.06	8.06	8.06
three months	9.50	10.81	9.00	11.69	10.44	8.69	8.44	8.38	8.31	8.13
six months	9.75	10.06	9.00	10.94	9.88	8.69	8.50	8.56	8.50	8.50
twelve months	10.00	10.44	9.00	10.31	9.75	8.69	8.75	8.75	8.75	8.63
Euro-French franc										
one month	12.13	10.69	12.50	14.50	15.00	7.75	7.31	7.25	7.13	7.13
three months	12.19	10.69	13.00	14.00	12.25	7.50	7.31	7.31	7.19	7.25
six months	12.31	11.00	13.13	12.50	11.00	7.50	7.31	7.31	7.25	7.31
twelve months	12.63	11.38	12.25	10.75	10.00	7.38	7.50	7.38	7.31	7.38
Euromark										
one month	5.25	5.50	4.75	4.56	4.44	4.56	4.56	4.44	4.63	4.44
three months	5.88	5.50	4.75	4.44	4.44	4.50	4.56	4.50	4.56	4.31
six months	6.13	5.56	4.75	4.38	4.44	4.44	4.63	4.56	4.56	4.31
twelve months	6.38	5.56	4.81	4.38	4.44	4.44	4.75	4.63	4.63	4.31
Euro-Dutch guilder										
one month	5.81	5.69	5.75	5.81	5.50	5.75	6.13	6.25	5.56	5.25
three months	6.00	5.75	5.75	5.81	5.44	5.50	5.81	6.06	5.44	5.13
six months	6.25	5.81	5.81	5.75	5.44	5.38	5.63	5.81	5.38	5.06
twelve months	6.38	5.94	5.88	5.75	5.44	5.31	5.63	5.75	5.38	5.06
Euro-Swiss franc										
one month	3.38	4.44	3.88	3.75	4.00	4.13	4.88	5.00	4.63	4.19
three months	3.75	4.56	4.00	3.75	3.94	4.13	4.69	5.06	4.63	4.13
six months	3.94	4.63	4.00	3.75	3.81	4.06	4.56	4.88	4.63	4.13
twelve months	3.94	4.69	4.06	3.81	3.75	3.94	4.44	4.75	4.63	4.13
Eurosterling										
one month	9.13	9.50	11.69	12.56	11.75	10.81	10.00	10.06	9.94	10.00
three months	9.31	9.88	11.81	12.31	11.31	10.38	9.81	9.81	9.94	9.81
six months	9.50	10.00	11.81	12.00	10.56	9.81	9.69	9.69	9.88	9.63
twelve months	9.81	10.19	11.69	11.69	10.25	9.50	9.44	9.63	9.94	9.56
Euroyen										
one month	6.25	6.19	7.13	6.50	5.56	4.94	4.75	4.69	4.75	5.13
three months	6.31	6.19	6.56	5.88	5.25	4.81	4.75	4.88	4.75	4.75
six months	6.38	6.13	6.50	6.56	5.13	4.69	4.81	4.63	4.69	4.63
twelve months	6.44	6.13	6.38	6.56	5.06	4.69	4.88	4.63	4.69	4.63
European currency unit										
one month	8.81	9.25	9.63	9.94	10.06	7.94	7.31	7.38	7.25	7.25
three months	9.19	9.38	9.63	9.88	9.50	7.56	7.31	7.31	7.19	7.06
six months	9.44	9.50	9.63	9.44	8.50	7.38	7.31	7.25	7.19	6.88
twelve months	9.63	9.63	9.63	9.06	8.06	7.19	7.13	7.25	7.13	6.88

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1984	1985	1986							
	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States companies										
Eurodollar	11.25	9.68	9.60	9.27	8.78	8.93	9.27	9.09	8.97	8.60
Euromark	6.95	6.73	6.73	6.61	6.67	6.62	6.74	6.65	6.55	6.55
Swiss franc	5.73	5.49	5.47	5.52	5.63	5.65	5.62	5.63	5.56	5.63
European governments										
Eurodollar	12.04	10.52	10.59	10.36	9.98	9.86	10.18	10.00	9.97	9.73
Euromark	7.39	7.03	6.95	6.81	6.77	6.82	6.92	6.95	6.81	6.64
Swiss franc	5.24	4.91	4.82	4.71	4.71	4.69	4.69	4.76	4.73	4.66
European currency unit	10.64	10.23	10.26	10.44	10.35	10.18	10.20	10.31	10.02	10.17

Central bank discount rates

at or near end of month

	1983	1984	1985	1986					Current	
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep 19 1986	effective since
United States	8.50	8.00	7.50	6.50	6.50	6.50	6.00	5.50	5.50	Aug 21, 86
Canada	9.96	10.09	9.49	9.27	8.58	8.84	8.51	8.58	8.58	Sep 11, 86
Austria	3.75	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	10.00	11.00	9.75	8.75	8.00	8.00	8.00	8.00	8.00	May 29, 86
Denmark	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.50	9.50	9.00	8.00	7.00	7.00	7.00	7.00	7.00	May 19, 86
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	4.00	4.50	4.00	3.50	3.50	3.50	3.50	3.50	3.50	Mar 7, 86
Ireland	12.25	14.00	10.25	12.50	11.00	10.00	10.00	10.00	10.00	Jun 18, 86
Italy	17.00	16.50	15.00	13.00	12.00	12.00	12.00	12.00	12.00	May 27, 86
Netherlands	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	Mar 7, 86
Norway	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 8, 83
Portugal	25.00	25.00	19.00	17.50	17.50	14.50	14.50	14.50	14.50	Jun 30, 86
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	8.50	9.50	10.50	8.00	8.00	8.00	8.00	8.00	7.50	Sep 19, 86
Switzerland	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	9.00	9.38	11.31	10.31	9.81	9.81	9.81	9.81	9.81	May 21, 86
Japan	5.00	5.00	5.00	3.50	3.50	3.50	3.50	3.50	3.50	Apr 21, 86
New Zealand	7.50	13.50	19.80	21.00	16.70	16.20	16.60	16.40	16.00	Sep 16, 86
South Africa	18.50	21.75	13.50	12.50	11.50	11.50	11.50	11.00	10.50	Sep 5, 86
Argentina*	15.10	18.19	5.00	6.18	6.18	6.20	6.68	8.79	8.79	Aug 29, 86
Korea	5.00	5.00	5.00	5.00	5.00	5.00	7.00	7.00	7.00	Jul 10, 86
Philippines	8.05	12.11	11.50	11.02	n.a.	n.a.	n.a.	n.a.	n.a.	Apr, 86
Singapore	7.00	6.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	13.00	12.00	11.00	10.00	10.00	10.00	9.00	9.00	8.00	Sep 1, 86
Venezuela	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	Mar, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1983	1984	1985	1986							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	9.47	8.38	8.27	8.14	7.85	7.48	6.98	6.85	6.91	6.55	6.16
Canada	8.78	10.50	9.23	9.94	11.47	11.10	9.58	8.41	8.19	8.38	8.10
Austria	5.75	7.63	7.25	6.13	6.25	5.00	4.75	4.88	4.88	5.13	5.13
Belgium	7.39	9.12	6.60	8.10	8.47	7.20	8.67	6.44	5.18	6.33	4.50
Finland	16.70	15.07	11.96	11.64	11.40	11.21	11.20	12.02	10.83	10.80	24.17
France	12.27	10.95	9.01	8.83	8.77	8.52	8.18	7.38	7.22	7.28	7.05
Germany	5.61	5.62	4.64	4.58	4.59	4.90	4.76	4.30	4.39	4.61	4.51
Ireland	12.19	14.50	9.62	12.00	14.38	14.75	12.63	10.50	9.50	9.63	9.55
Italy	17.88	17.25	14.75	15.15	16.57	17.15	15.02	13.06	12.34	12.11	11.78
Netherlands	5.84	5.60	5.75	5.75	6.01	5.72	5.49	6.69	6.06	6.13	5.56
Norway	12.30	12.50	12.40	13.00	13.20	13.20	13.50	17.00	14.00	14.00	14.00
Spain	16.98	12.18	9.92	8.50	10.54	11.25	12.20	12.04	12.03	12.26	12.34
Sweden	11.52	11.88	11.83	13.00	11.10	10.83	11.58	11.33	10.00	10.00	9.52
Switzerland	1.88	1.50	2.00	2.00	1.75	2.25	2.25	2.00	1.75	2.25	2.00
United Kingdom	7.78	6.31	9.72	11.59	11.16	12.09	8.96	8.55	10.53	8.98	8.70
Australia	4.55	10.98	18.37	18.32	18.16	16.74	15.06	12.31	13.20	13.43	16.79
Japan	6.44	6.41	8.02	6.84	5.78	5.53	4.70	4.21	4.39	4.47	4.55
South Africa	16.06	21.13	12.50	12.00	11.25	11.75	12.00	10.63	10.69	10.75	9.81
Argentina*	14.65	17.75	4.50	4.50	4.50	4.50	4.50	4.50	5.00	5.00	7.00
Brazil	184.69	272.02	352.23	541.33	376.24	15.12	16.64	15.50	18.30	25.93	35.60
Hong Kong	13.90	6.80	6.10	5.93	6.63	6.48	7.81	6.02	6.91	5.95	5.64
Korea	11.40	10.00	8.80	8.50	9.40	9.70	11.00	10.30	10.00	10.60	9.30
Philippines	31.18	15.22	15.03	11.72	21.08	17.83	15.62	12.43	n.a.	n.a.	n.a.
Singapore	7.05	6.01	4.53	4.84	5.75	4.85	4.82	5.07	4.49	3.73	3.95
Taiwan	7.65	8.07	4.50	4.25	5.25	3.54	3.75	3.50	4.53	3.50	3.50

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1983	1984	1985	1986							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	9.28	7.99	7.25	7.15	7.23	6.50	6.24	6.45	6.13	5.93	5.23
Canada	9.71	9.84	9.24	10.55	11.55	10.19	9.02	8.33	8.59	8.26	8.33
Belgium	11.00	10.90	9.89	9.89	9.89	9.89	8.36	7.71	7.45	7.45	7.45
Ireland	12.01	15.10	11.15	14.32	15.02	12.08	9.69	8.76	9.16	10.13	10.38
Italy	16.29	14.19	12.70	13.29	13.16	12.74	12.03	10.93	10.50	10.44	10.13
Netherlands	5.63	5.88	5.69	5.72	6.13	5.56	6.88	6.50	5.88	5.75	4.75
Spain	14.46	12.00	9.25	9.25	9.25	9.25	9.25	n.t.	n.t.	n.t.	n.t.
Sweden	11.75	11.83	12.49	11.70	11.14	10.63	10.19	9.90	9.85	9.29	n.a.
United Kingdom	9.04	9.33	11.49	12.47	12.21	11.04	10.09	9.56	9.52	9.76	9.56
Australia	8.54	12.27	19.40	18.46	17.03	14.88	12.84	12.78	12.38	14.98	17.20
Japan	4.91	4.91	4.91	4.91	4.41	3.90	3.39	3.39	3.39	3.39	3.39
New Zealand	7.80	13.50	17.62	18.27	18.48	21.64	20.41	17.34	15.64	16.75	n.a.
South Africa	18.43	21.94	12.99	12.02	11.96	11.97	11.58	11.02	10.75	10.22	9.51
Brazil	179.15	273.03	379.77	n.t.	n.t.	15.40	16.79	15.90	16.60	26.30	36.00
Mexico	53.78	48.67	72.96	74.89	77.75	78.78	80.84	80.74	88.50	n.t.	n.t.
Philippines	15.99	47.14	16.45	16.68	23.43	23.56	19.65	15.79	n.a.	n.a.	n.a.
Singapore	2.59	2.91	2.94	2.96	2.80	2.64	2.58	2.35	2.42	2.54	2.15

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1983	1984	1985	1986							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	9.89	8.34	8.01	7.91	7.80	7.34	7.17	6.96	6.75	6.39	5.65
Canada	9.87	10.10	9.45	11.25	12.05	10.80	8.85	8.65	8.65	8.55	8.35
Belgium	11.15	10.85	9.89	9.89	9.89	8.52	8.11	7.71	7.40	7.40	7.40
France	12.19	10.69	9.12	8.93	8.57	8.37	7.50	7.24	6.80	7.25	7.13
Germany	6.30	5.75	4.80	4.60	4.35	4.65	4.60	4.60	4.55	4.65	4.30
Ireland	12.19	15.13	12.00	15.25	16.25	14.63	10.75	10.25	9.25	10.75	10.62
Italy	17.88	16.88	15.13	16.00	16.75	15.00	12.75	12.13	12.25	11.38	11.00
Netherlands	6.00	5.75	5.75	5.81	5.88	5.50	5.56	6.00	6.19	5.56	5.25
Portugal	24.11	24.57	20.71	18.28	18.55	18.75	17.76	17.07	n.a.	n.a.	n.a.
Spain	19.00	12.21	10.51	10.68	10.72	11.59	12.27	11.63	12.06	12.51	12.18
Switzerland	3.88	5.00	4.75	4.43	4.13	4.06	4.50	4.69	5.50	4.88	4.25
United Kingdom	9.31	9.88	12.75	12.75	12.25	11.06	10.13	9.69	9.75	9.88	9.63
Australia	9.05	12.90	19.75	18.75	18.00	16.20	16.10	14.85	14.80	15.10	17.60
Japan	6.45	6.33	7.03	6.12	5.92	5.16	4.53	4.66	4.64	4.65	4.53
New Zealand	11.75	15.00	20.00	23.50	23.50	22.30	21.30	16.10	17.10	16.80	16.30
South Africa	19.12	22.78	13.35	12.55	12.40	12.35	11.95	11.25	10.80	10.55	9.35
Chile	20.68	20.68	22.42	19.56	19.56	14.03	19.56	12.68	14.03	15.39	11.35
Hong Kong	14.88	8.25	6.50	6.63	6.81	7.25	7.81	6.02	6.75	6.31	5.00
Indonesia	19.50	19.00	15.00	14.50	14.50	20.25	16.50	16.00	15.00	15.00	14.00
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.80	10.30	8.20	8.30	8.70	8.75	15.00	9.80	10.00	9.80	11.75
Philippines	15.61	33.21	14.61	23.05	26.05	26.45	19.32	14.57	n.a.	n.a.	n.a.
Singapore	8.44	7.00	5.88	5.53	5.31	5.00	4.94	5.06	4.88	4.31	3.94
Taiwan	8.07	7.85	4.10	3.17	3.10	3.37	3.99	3.58	3.68	3.27	2.81
Thailand	16.00	12.00	15.50	11.50	11.25	10.00	10.00	9.50	8.50	8.00	8.00

Commercial bank deposit rates

at or near end of month

	1983	1984	1985	1986							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	9.70	8.35	7.75	7.75	7.60	7.16	6.55	6.82	6.65	6.33	5.47
Canada	9.82	10.05	9.40	11.20	12.00	10.75	8.80	8.80	8.60	8.50	8.30
Austria	6.50	7.50	6.50	8.25	6.38	5.50	4.88	5.19	5.13	5.13	5.13
Belgium	11.25	10.63	9.63	9.88	9.75	9.63	8.13	7.31	7.19	7.25	7.19
Denmark	6.00	6.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.25	5.25	4.75	4.25	4.25	3.75	3.75	2.75	2.75	2.75	2.75
France	7.66	7.04	6.12	6.03	6.02	5.88	5.72	4.50	4.50	4.50	4.50
Germany	5.90	5.25	4.40	4.25	4.25	4.15	4.35	4.35	4.35	4.45	4.45
Ireland	11.75	14.63	11.87	15.25	16.00	14.50	10.75	10.00	10.00	10.00	10.00
Italy	13.25	11.64	11.85	11.75	11.75	11.75	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	6.13	5.69	5.81	5.69	5.75	5.30	5.44	5.88	6.08	5.44	5.19
Norway	12.75	12.75	12.00	12.25	12.25	12.25	12.25	12.25	13.00	13.00	13.00
Portugal	21.50	28.00	20.00	20.00	20.00	20.00	18.50	18.50	15.50	n.a.	n.a.
Spain	12.62	11.64	9.64	9.61	9.59	9.11	9.42	9.20	9.04	8.89	n.a.
Sweden	11.70	11.45	12.18	12.45	11.45	11.00	10.65	10.60	10.10	9.80	n.a.
Switzerland	3.50	4.50	4.50	4.25	3.94	3.81	4.25	4.44	5.25	4.63	4.00
United Kingdom	9.31	9.88	11.75	12.75	12.13	11.06	10.13	9.69	9.63	9.88	9.63
Australia	10.40	12.75	18.80	18.63	17.95	18.13	14.68	14.21	14.00	14.46	16.67
Japan	6.40	6.38	7.05	6.24	6.10	5.32	4.80	4.90	4.65	4.70	4.80
New Zealand	11.75	15.25	19.98	22.99	23.55	20.56	20.16	16.42	15.10	16.47	16.57
South Africa	20.13	22.88	13.20	12.70	12.65	12.60	12.00	11.40	11.00	10.80	9.75
Argentina*	14.50	31.23	5.40	5.40	4.75	4.50	4.34	4.25	4.28	4.48	6.18
Brazil	23.00	27.00	18.00	18.00	18.50	21.00	21.50	26.00	29.00	30.00	42.00
Chile	20.57	20.68	23.60	22.27	23.60	16.30	19.98	13.62	15.94	16.49	13.62
Hong Kong	14.88	8.25	6.50	6.63	6.81	7.25	7.81	6.02	6.75	6.31	5.00
Korea	7.60	6.00	6.00	6.30	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	7.75	9.58	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Mexico	57.15	47.45	72.90	73.60	75.75	79.55	80.20	80.00	85.50	87.50	87.50
Philippines	14.96	31.01	12.34	11.66	13.24	14.17	12.37	14.63	n.a.	n.a.	n.a.
Singapore	7.44	6.13	5.26	5.01	5.01	4.94	4.76	4.94	4.82	4.26	3.88
Taiwan	7.00	6.50	5.25	5.25	5.75	4.75	4.50	4.50	4.50	4.50	4.25
Thailand	10.00	13.00	10.50	10.50	11.00	10.50	8.50	8.50	8.50	7.50	6.75
Venezuela	12.00	12.50	8.00	8.00	8.00	8.00	8.00	8.00	9.00	9.00	9.00

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1983	1984	1985	1986							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	12.00	11.61	9.49	9.45	8.31	7.50	7.70	8.37	7.79	7.88	7.51
Canada	12.02	11.66	10.04	10.49	9.96	9.54	9.32	9.52	9.42	9.36	9.16
Austria	8.02	8.04	7.61	7.62	7.68	7.63	9.00	7.14	7.19	7.20	7.11
Belgium	11.89	11.56	9.60	9.62	9.38	8.41	7.46	7.93	7.88	7.47	7.24
Denmark	12.96	14.60	9.37	10.12	9.27	9.26	8.63	10.17	10.17	10.64	11.24
Finland	11.16	10.73	10.58	9.74	8.96	8.77	8.89	8.27	8.27	8.25	8.15
France	13.96	12.70	11.33	10.79	10.00	9.19	8.53	8.58	8.65	8.55	8.05
Germany	8.38	7.17	6.57	6.64	6.32	6.21	5.78	6.31	6.17	6.07	5.95
Ireland	14.25	14.90	11.84	11.92	10.68	9.35	8.57	9.17	9.31	10.33	n.a.
Italy	17.60	14.52	13.66	13.43	13.80	13.35	12.27	10.87	10.83	11.06	10.81
Netherlands	8.58	7.72	6.96	6.81	6.84	6.44	6.15	6.39	6.38	6.22	6.03
Norway	12.50	12.00	13.10	13.10	13.20	12.80	12.80	12.80	13.10	13.42	13.40
Portugal	22.11	22.23	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	17.25	13.93	12.30	12.35	12.36	12.22	12.06	11.44	10.98	11.52	11.52
Sweden	12.30	12.04	12.11	12.23	11.60	10.81	9.81	10.06	9.79	9.76	n.a.
Switzerland	4.53	4.60	4.42	4.42	4.27	4.16	4.24	4.39	4.43	4.39	4.26
United Kingdom	9.94	10.25	10.35	10.56	9.83	8.75	8.73	9.11	9.32	9.45	9.31
Australia	13.65	13.50	14.85	14.10	13.70	12.60	12.25	12.65	12.95	14.02	14.17
Japan	7.45	6.47	5.92	5.57	5.33	4.67	4.79	5.57	4.90	4.83	4.57
New Zealand	10.50	16.90	17.00	18.75	18.30	18.90	16.80	15.50	15.20	16.24	15.97
South Africa	13.64	16.55	18.09	17.57	17.30	17.65	17.40	17.09	16.99	16.00	14.03
Philippines	14.47	18.54	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.a.	n.a.	n.a.
Venezuela	13.50	14.00	12.00	12.25	12.00	12.00	12.00	12.00	12.00	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1983	1984	1985	1986							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	11.00	10.75	9.50	9.50	9.50	9.00	8.50	8.50	8.50	8.00	7.50
Canada	11.00	11.25	10.00	11.50	13.00	12.00	11.25	10.25	10.25	9.75	9.75
Austria	9.25	9.25	9.00	9.00	9.25	9.25	9.25	9.25	9.00	9.00	9.00
Belgium	13.75	14.00	11.50	12.25	12.25	11.50	10.50	10.50	9.75	9.75	9.75
Denmark	10.00	10.50	8.50	8.50	8.50	7.50	7.50	7.50	7.50	7.50	8.00
Finland	10.18	10.68	10.37	9.90	9.90	9.49	9.49	8.78	8.82	8.76	n.a.
France	12.25	12.00	10.60	10.60	10.60	10.60	10.10	9.60	9.60	9.60	9.60
Germany	7.75	7.75	7.25	7.25	7.25	6.75	6.75	6.75	6.75	6.75	6.75
Ireland	13.75	15.75	12.50	14.50	17.50	17.50	14.50	13.50	12.25	12.25	12.25
Italy	18.75	18.00	15.88	15.88	16.00	16.00	15.25	14.50	13.50	13.50	13.50
Netherlands	7.00	6.25	6.25	6.25	6.38	6.00	6.00	7.00	6.75	6.50	5.88
Norway	13.50	13.00	12.40	13.50	14.00	13.75	13.75	14.75	15.50	15.25	15.25
Portugal	30.00	29.00	22.50	22.50	22.50	22.50	21.00	21.00	18.00	n.a.	n.a.
Spain	17.31	15.84	14.75	14.66	14.58	14.58	14.52	14.50	14.44	14.37	14.36
Sweden	13.50	14.50	15.05	14.00	14.00	13.00	12.75	12.75	12.75	12.75	n.a.
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.75	5.75	5.75
United Kingdom	9.00	9.50	11.50	12.50	12.50	11.50	10.50	10.00	10.00	10.00	10.00
Australia	12.75	14.00	21.00	20.60	20.50	19.75	19.00	18.25	18.00	17.25	18.20
Japan	5.89	5.70	5.71	5.70	5.64	5.42	5.18	4.95	4.95	4.71	5.24
New Zealand	11.00	14.00	21.00	21.00	20.00	21.00	22.00	21.00	18.00	17.00	16.50
South Africa	20.00	24.00	16.50	15.50	15.50	15.50	15.50	14.50	14.50	14.50	14.00
Argentina*	15.50	32.05	7.30	7.00	6.40	5.25	4.80	5.52	5.35	5.57	7.70
Brazil	24.00	31.00	19.00	19.00	19.50	21.00	22.50	26.00	29.00	32.00	44.00
Chile	30.90	60.82	33.34	33.46	38.07	31.76	31.99	30.60	29.38	28.77	26.38
Hong Kong	13.50	11.00	7.00	7.00	7.00	8.00	8.00	7.50	7.50	7.50	6.50
Indonesia	19.75	23.50	18.75	18.50	20.00	20.00	19.50	19.00	19.00	18.75	17.75
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	11.00	12.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Mexico	56.44	47.54	65.66	68.55	70.30	71.79	73.48	75.02	76.97	81.36	84.40
Philippines	18.00	44.00	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.a.	n.a.	n.a.
Singapore	8.98	9.40	7.20	7.20	7.20	7.18	7.15	7.15	7.15	7.05	6.83
Taiwan	10.25	10.00	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00
Thailand	16.00	16.50	15.50	15.50	15.50	14.00	14.00	14.00	14.00	12.75	12.00
Venezuela	16.00	16.00	13.00	13.00	13.00	13.00	13.00	13.00	14.00	14.00	14.00

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1983	1984	1985	1986							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	12.63	12.25	10.15	10.38	9.00	8.63	9.00	9.20	9.00	9.25	8.63
Canada	12.89	12.42	10.74	12.08	12.95	12.46	12.24	10.35	10.10	10.19	10.00
France	14.35	12.94	11.76	11.38	10.81	10.13	9.82	9.44	9.85	9.12	8.37
Germany	8.30	7.20	6.90	8.80	6.80	6.70	6.60	6.40	6.50	6.60	6.40
Netherlands	8.51	7.51	n.t.	n.t.	6.86	6.53	n.t.	n.t.	n.t.	n.t.	n.t.
Norway	13.25	12.75	14.00	14.00	14.00	14.00	14.00	14.00	14.25	14.90	15.00
Spain	20.07	18.32	14.92	14.87	14.82	14.40	13.91	13.99	13.71	13.22	13.66
Sweden	12.21	12.33	13.25	13.21	12.73	11.99	10.93	11.20	11.04	10.88	n.a.
Switzerland	4.82	5.09	4.93	4.78	4.71	4.64	4.98	4.77	4.83	4.84	4.77
United Kingdom	11.57	11.64	11.47	11.59	10.88	9.96	9.80	10.05	10.32	10.49	10.32
Japan	7.09	6.21	6.90	6.70	5.96	5.40	5.14	5.20	5.14	4.74	5.14
Korea	14.20	15.00	13.60	13.00	12.60	12.40	12.40	12.80	12.80	12.90	12.80
Venezuela	18.00	18.00	17.00	17.50	17.00	17.00	17.00	17.00	17.00	17.00	17.00

Key to data in tables

I. International markets

Data on the international banking market size are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An international bond issue may be either a Eurobond issue or a foreign bond issue. A Eurobond issue is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A foreign bond issue is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibles, bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An international bank credit may be either a Eurocurrency credit or a foreign credit. A Eurocurrency credit is one denominated in a currency that is foreign to the country of the bank office extending the credit. A foreign credit is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extending the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly*.

II. Domestic markets

Central bank discount rates

Rates shown are the official discount rates with the exception of:

Ireland — Short Term Facility rate.

South Africa — discount rate for 90-day banker's acceptances.

United Kingdom — rate of discount for outright purchases of 15- to 33-day bank bills.

Day-to-day money rates

Argentina — 7-day interbank money regulated by the central bank.

Austria — day-to-day interbank rate.

Australia — effective interest rate in the official short-term money market.

Belgium — day-to-day loan rate in the call money market.

Brazil — interbank overnight money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48-hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — overnight interbank call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

Taiwan — private interbank overnight loan rate.

United Kingdom — call money.

United States — federal funds rate.

Treasury bill rates

Australia — 13-week Treasury notes at tender.

Belgium — new issue of 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month central bank exchequer bills at tender.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — tap issue rate for 3-month Treasury bills until December 1984. As of January 1985, 3-month Treasury bills at tender.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — 6-month Treasury bills at tender until March 1984. As of April 1984, 3-month Treasury bill repos reported by the Bank of Spain (average of quotations during the month).

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — buying rate for 90-day bank accepted commercial bills.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — central bank 60-day fixed rate promissory notes (PDRC) at tender.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month "gensaki" rate.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month banker's acceptances.

South Africa — 90-day banker's acceptances.

Spain — 3-month interbank rate reported by the Bank of Spain (average of quotations during the month).

Switzerland — 3-month interbank deposits.

Taiwan — 90-day banker's acceptances.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the central bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — negotiable 3-month time deposits of more than HK\$500,000.

Ireland — 3-month deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit until September 1983. New series as of October 1983, 3-month promissory notes.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — weighted average interest rates on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Key to data in tables — continued

Singapore — 3-month certificates of deposit.
South Africa — 3-month negotiable certificates of deposit.

Spain — deposits over 6 months and less than 1 year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — maximum rate for 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposit for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — secondary market yield for 10-year Treasury bonds.

Belgium — Belgium National Bank secondary market average yield on central government bonds of more than 5 years' maturity quoted on Brussels Stock Exchange.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — INSEE secondary market weighted average yield of public sector bonds with a remaining maturity of 10 years or more.

Germany — Frankfurter Allgemeine Zeitung 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9 years or more.

Japan — secondary market average yield on longest-term life government bonds as quoted by the Securities Dealers Association of Japan.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 5 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for central bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — Bank of Spain secondary market weighted average yield of several central government issues with more than 2 years' maturity (average of quotations during the month).

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — overdraft rate. Maximum indicator rate applying to loans of A\$100,000 or more for major trading banks.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime lending rate set by the Hong Kong Association of Banks.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — private banks' average interest rate for 1-year loans reported by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market weighted average yield of industrial bonds with a remaining maturity of more than 3 years.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on corporate bonds guaranteed by local banks, with an original maturity of 3- 2- 5-years.

Netherlands — CBS average yield on three 6%-8.5% corporate bonds until December 1981. As of January 1982, CBS secondary market weighted average yield on all commercial bank issues with a quotation between 92% and 103%.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — Bank of Spain secondary market weighted average yield of several corporate issues with more than 3 years' maturity (average of quotations during the month).

Sweden — Central Statistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stocks with an average of 25 years to maturity.

United States — Salomon Brothers index of new issues yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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